EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,677 · Wednesday October 26 1988 · D 8523 A

CHINA AVIATION
Airlines fail to get off the ground
Page 20

World News

Tension rises on eve of South African local election

Two more South African anti-apartheid groups were banned, a bomb extensively damaged a shopping centre and a black candidate was shot dead as tension mounted in the run-up to today's municipal elections.

Some 7,000 posts in racially segregated local councils are at stake in the first poll in South Africa in which all races have voted on the same day. Anti-apartheid groups have called for a boycott of the poll. Tight security, Page 4

Gulf talks to resume

UN Secretary-General Javier Perez de Cuellar announced that peace talks between Iran and Iraq would resume on October 31.

Indian farm protest

Tens of thousands of farmers began an indefinite sit-in in central New Delhi to demand better prices for their produce, cheaper electricity and cancellation of government agricultural loans. Page 4

Italians cleared

A special session of Parliament cleared two Italian former foreign trade ministers of taking bribes from shipyards to award contracts worth $2.5bn for the sale of warships to Iraq eight years ago.

Zambia polling day

Zambians go to the polls today to elect 125 members of Parliament from a single-party list and to endorse Kenneth Kaunda, the head of state for 24 years, for another five-year term.

Peru air crash

A Peruvian passenger aircraft with 65 people on board crashed shortly after takeoff from Juliaca airport. First reports said there were at least 53 survivors.

Ecuador judge shot

Gunmen shot dead Ivan Martinez, president of the Quito Superior Court, in what Ecuador police said was a premeditated attack.

Typhoon ferry toll

Only a handful of people survived out of about 470 on board a ferry which sank as Typhoon Ruby hit the Philippines. Page 4

Sri Lankan curfew

The Sri Lankan authorities extended a curfew in force in southern parts of the country but lifted it in the capital, Colombo, where eight people were earlier killed and 42 injured in a bomb attack on the ruling UNP. Page 20

Chadli 'no' to parties

Algerian President Chadli Bendjedid, defining the limits of political reforms planned after serious riots earlier this month, ruled out the possibility of multi-party politics in the one-party state. Page 4

Mitterrand in Egypt

French President François Mitterrand met Egyptian President Hosni Mubarak for talks covering last weekend's discussions between Jordan's King Hussein and Palestinian leader Yasser Arafat. Syrian diplomatic moves, Page 4

'Temptation' arrests

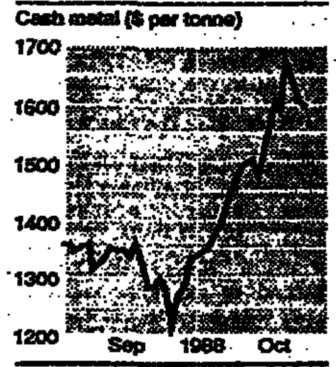
French police detained seven out of 37 people arrested in connection with Saturday's arson attack on a cinema showing the controversial film The Last Temptation of Christ.

Business Summary

Texaco profits double to $239m

TEXACO, long derided as most pedestrian of large US oil companies, turned in strongest third quarter performance yet seen in US oil, with net income more than doubled to $239m or 98 cents a share. Page 21

ZINC prices rallied in afternoon trading on the LME after earlier losses, closing well above day's lows but below



Monday's levels. Both zinc and copper continued to be affected by miners' strike in Peru, where Centromin declared *force majeure* on shipments of refined metals and concentrates. Page 40

SEARS, Roebuck, world's biggest retailer, reported 17 per cent decline in third quarter income to $344.2m, as weak apparel sales depressed performance. Poor results renewed Wall Street speculation that company could become object of a takeover bid. Page 21

STANDARD Chartered, UK banking group, refused permission for Alan Bond, Australian businessman, to sell his Bond Corporation's 14.9 per cent stake in the group before completion date for Standard's £303m ($530m) rights issue on November 4. Page 21

CATHAY City, Hong Kong finance company run by Lo Yuk Sui, is expected to make new bid for Hongkong and Shanghai Hotels following recommendation by independent directors on Hongkong Hotels' board for shareholders to reject rival takeover offers from both Mr Lo and controlling Kadoorie family. Page 21

KRAFT, US food company which has rejected a $90 a share takeover bid from Philip Morris, said it wanted to stay independent but would be bound to listen to Morris or any other potential acquirer willing to pay $110 a share or more. Page 23

GOODYEAR, US tyre company, blamed higher raw material costs for drop in third quarter earnings from $178.7m last year to $63.5m this. Page 23

CREDIT Agricole, France's largest bank, sharply boosted earnings in first half, and expects to report consolidated net earnings for full year of FFr1.5bn to FFr1.8bn ($244m-$293m). Page 22

SALOMON, which recently suffered another sudden exodus of top executives at its investment firm, reported sharp increase in third-quarter net income to $65m, on revenue down from $1.56bn to $1.29bn. Page 23

CHASE Corporation, headed by New Zealand entrepreneur Colin Reynolds, won effective control of Wormald International, troubled Australian fire protection group, after six-month battle. Page 27

BRITAIN'S scheme to pay farmers to take arable land out of production got off to a slow start, with only about 60,000 ha submitted in the first year. Page 40

W Germans and Moscow sign DM3bn line of credit

A DM3bn ($1.7bn) West German bank line of credit for exports to the Soviet Union, formally signed in the Kremlin yesterday, will be strictly limited to imports for Soviet light industry and consumer goods, Mr Alfred Herrhausen, chief executive of Deutsche Bank, said in Moscow yesterday, write **Quentin Peel and David Marsh in Moscow.**

The deal between a West German consortium headed by Deutsche Bank, and Vneshekonombank – the Soviet Bank for Foreign Economic Relations – was sealed at a ceremony attended by both Mr Mikhail Gorbachev, the Soviet leader, and Chancellor Helmut Kohl, to underline the key part that West German finance and trade links have played in a dramatically improved bilateral relationship.

It will provide relatively long-term finance – with a repayment period of up to 12 years – on market-related terms, to re-equip Soviet light industry, the top priority in Mr Gorbachev's economic reform programme.

Mr Herrhausen said that DM1.2bn of the DM3bn was already committed to projects, all involving West German exports. Although the loan does not carry a formal Soviet state guarantee, it is underwritten by Vneshekonombank, the main finance arm of Soviet foreign trade.

"This would not have been possible if it were not for perestroika," Mr Herrhausen said. "When they say they want to spend the money on light industry, I am sure it is helping perestroika."

He rejected US fears that the big line of credit could indirectly help Soviet military production, saying that all the projects to be financed would be closely scrutinised.

"I believe the intention of the Soviet Government is to reduce their spending on military purposes," he said. "They are not interested in using the money for defence purposes. And when we finance the import of machines, we know what it is for."

Contracts for which the loan will be used include a sale of fast food machinery – for producing dumplings – and equipment to manufacture clothing and ladies stockings.

Mr Herrhausen said it was not excluded that the money could also be used for direct consumer goods imports, although it was primarily intended for manufacturing equipment. Economists see Mr Gorbachev's biggest problem currently as getting more consumer goods into the shops, to make people believe his economic reforms can work.

The lead time for setting up new light industries is too long for the effects to be seen swiftly: the West German conditions include 4½ years to establish the new industries, before repayment begins.

Mr Herrhausen said he believed that in spite of the Soviet desire to expand its external trade links, the Government would continue to be "rather prudent" in borrowing from Western banks.

"I am convinced they will watch their international creditworthiness," he said.

However, he admitted that the independence of a growing range of Soviet ministries and individual enterprises to trade and set up joint ventures could create a problem for Western banks – because their borrowing will not carry the effective guarantee of the Soviet Government or Vneshekonombank.

"The more they borrow, the more people may begin to ask what cover they have," he said.

The loan signing was the high point of a day which saw a big round of economic talks between Chancellor Kohl and his ministers, and Mr Nikolai Ryzhkov, the Soviet Premier, with a comparable team.

Both sides stressed the importance of economic co-operation, underlined by the presence of 70 major West German industrialists in Chancellor Kohl's party.

There was some attempt to play down the initial coolness of Chancellor Kohl's reception in the Kremlin, in which Mr Gorbachev warned the West German leader against looking for changes in European borders – in other words German reunification – from the East-West detente.

Chancellor Kohl's spokesman insisted that he had felt some encouragement from the Soviet leader, although the Soviet spokesman, Mr Gennady Gerasimov, would only say later that anything was possible over a 50-year or 100-year timescale.

Cool breezes in Moscow; Anger over Berlin air service, Page 2; Klöckner restructuring, Page 22

British inquiry into Gold Fields bid raises controversy

By Kenneth Gooding, Mining Correspondent, in London

LORD YOUNG, UK Secretary for Trade and Industry, yesterday sparked off fresh controversy about the British Government's merger policy when he referred Minorco's £2.9bn ($5bn) hostile bid for Consolidated Gold Fields to the Monopolies and Mergers Commission.

The City of London widely assumed that the referral was made for political reasons – to stop the takeover of a substantial UK group by South African interests. Minorco is controlled by Anglo American Corporation and De Beers, the two key companies in Mr Harry Oppenheimer's South African industrial and mining empire.

Analysts were divided in their opinion about whether or not Minorco, whose bid automatically lapsed when the referral was announced, would wait for the inquiry to be completed before renewing its offer. The Commission has been asked to report its findings within three months.

Gold Fields waged a worldwide campaign against the bid, pointing to Minorco's South African connections and this resulted in Lord Young receiving letters from the prime ministers of Australia and Papua New Guinea, from some State governors in the US as well as MPs in the UK about the offer.

However, the Department of Trade and Industry insisted that Minorco's nationality played no part in the decision. It said Lord Young "considers that there are possible effects on competition in the markets for certain high value minerals and metals, and especially titanium and zircon, which deserve investigation by the Commission."

The Department insisted that a situation existed which might lead to collusion among producers to raise the prices of the two materials to the detriment of UK customers.

Analysts were astounded by this suggestion. They pointed out that mineral sands, the raw material from which both titanium and zircon are produced, is in abundant supply, reasonably well distributed throughout the world and that the involvement of Gold Fields and Minorco in this business was tenuous.

Mr Tony Blair, the UK Labour party's spokesman on City matters, welcomed the decision to refer the bid because of Minorco's South African ownership. He added, however, "I welcome too what appears to be much greater willingness of the part of the Government to intervene in the market. But it is now vital that the Government clarify their merger policy, at present an incoherent muddle, so that everyone knows here and abroad what consistent principles govern it."

The bid, the biggest ever made for a UK company, has been surrounded by controversy because of clear signs of insider trading in the weeks before the announcement of the offer.

Lord Young appointed Department of Trade and Industry inspectors last week to investigate the insider dealing allegations and the possibility that there might have been "concert parties" – purchases of the target company's shares by on behalf of, rather than by, the bidder.

Gold Fields urged the London Stock Exchange's Takeover Panel to halt the bid temporarily in view of the investigation but yesterday the full Panel turned down the request. It did so after receiving affidavit evidence from five Minorco directors that the company had not leaked information about the bid, that it had complied with the Takeover Code and that "no dealings in the shares or options of Gold Fields took place by any party acting in concert with Minorco who was privy to information about the offer."

Gold Fields share price rose yesterday after the panel announcement at 7 am. But two hours later, when Lord Young's decision became known, the price fell back to end last night at £11.37½, down £1.06 from Monday's close.

A relationship of mutual suspicion, Page 18; Lex, Page 20

Ashley Ashwood

Mrs Margaret Thatcher pictured at the FT printing plant which she opened last night

FT printing enters Concorde age

By Raymond Snoddy in London

A NEW Financial Times printing plant, which will eventually be able to turn out 600,000 72-page newspapers a night, complete with colour, was last night officially opened.

Mr Frank Barlow, chief executive of the Financial Times, said the new plant on the site of the old East India Docks was the printing equivalent of "the difference between the Wright brothers and Concorde."

The FT chief executive said the plant would enable the paper to continue to expand its worldwide coverage of financial, business and political affairs.

The new plant in London's Docklands is the centrepiece of a £70m ($122m) modernisation of the paper, including the move to electronic setting of copy with journalists entering their reports directly into computer terminals.

The plant has been designed to ensure that passersby will will be able to see the next morning's Financial Times coming off the two Rockwell Goss Headliner web-offset presses that cost £10m and are each capable of printing 70,000 copies an hour.

The changes at the FT, which have included 400 voluntary redundancies, are part of the rapid transformation of what used to be known as Fleet Street – a process that has led to £1bn in new investment by Britain's national newspapers over the past two years, including redundancy payments.

The existing seven printing units will be able to turn out a 56-page paper in four sections compared with the old 48-page limit.

An eighth printing unit is already on order with room for a ninth which would take capacity up to 600,000 72-page papers.

Letter from the Editor, Page 19

Solidarity rejects conditions for talks with Government

By Christopher Bobinski in Warsaw

RELATIONS between Poland's Communist authorities and the opposition worsened yesterday as Solidarity, the banned trade union, rejected Government conditions for wide-ranging talks on the country's future, which the leadership wanted to start on Friday.

The latest verbal clashes mean that the impasse could still be unbroken when Mrs Margaret Thatcher, the UK prime minister, arrives in Poland next week for a politically sensitive visit during which she is expected to renew calls for dialogue. The long-awaited "round-table" talks have been billed as an opportunity to give the Solidarity-based opposition a share of power by allowing them some Government posts and parliamentary seats.

Mr Lech Walesa, the Solidarity leader, yesterday turned down Government demands to drop two advisers from his negotiating team. He also rejected Government demands that he hold further talks on procedure with Gen Czeslaw Kiszczak, the interior minister.

Solidarity's hopes of early legalisation were knocked after a speech at the weekend by General Wojciech Jaruzelski, the party leader, in which he put off into the distant future the return of the independent union.

Gen Jaruzelski is expected to meet the Polish Church leader Cardinal Jozef Glemp to discuss the deadlock and perhaps seek to persuade Cardinal Glemp to press Solidarity for concessions.

Yesterday Mr Jerzy Urban, the Government spokesman, urged Mr Walesa to meet Gen Kiszczak today. He also named the two advisers to whom the authorities are objecting as Mr Jacek Kuron and Mr Adam Michnik. In Gdansk, Mr Walesa said the Government demands were unacceptable and threatened to undermine the independence of Solidarity.

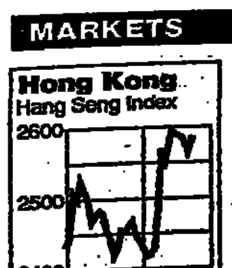
He also rejected suggestions of another meeting with Gen Kiszczak, who originally proposed the round table idea at the end of August as a way of ending a rash of strikes in the coal mines and ports.

The authorities still appear to want the round table talks to go ahead as a way of bolstering their image abroad. They also believe the talks may provide a way of neutralising the opposition through involvement in official institutions.

Cardinal Glemp has on the whole supported the round table process on the grounds that little harm can come from non-party people answering official institutions and seeking to influence policy.

But at the same time the Church is strongly committed to supporting Solidarity's right to a legal existence leaving the Cardinal with little freedom of manoeuvre in his meeting with Gen Jaruzelski.

MARKETS



INTEREST RATES
US lunchtime
Federal Funds $8\frac{5}{16}$% ($8\frac{5}{16}$)
3-mth Treasury Bills: yield: 7.677% (7.75)
Long Bond: $101\frac{21}{32}$ ($102\frac{3}{32}$)
yield: 8.925% (8.92)
London
3-month interbank: close $12\frac{1}{8}$% (same)

STERLING
New York lunchtime
$1.753 (1.74825)
London:
$1.7535 (1.7525)
DM3.14 (3.13)
FFr10.7275 (10.7)
SFr2.6625 (2.655)
Y222.25 (same)

DOLLAR
New York lunchtime
DM1.7905 (1.7925)
FFr6.1205 (6.1285)
SFr1.5195 (1.51925)
Y126.925 (126.975)
London:
DM1.7905 (1.7865)
FFr6.1175 (6.105)
SFr1.5185 (1.5145)
Y126.8 (126.75)

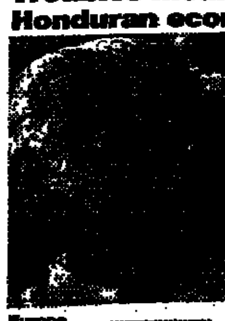
GOLD
New York latest
Comex Dec
$409.4 (408.6)

STOCK INDICES
New York lunchtime
Dow Jones Ind. Av.
2,169.99 (-0.35)
S&P Comp
282.33 (+0.06)
London:
FT-SE 100
1,847.8 (-0.6)
World:
132.12 (Mon)
Tokyo
Nikkei Ave
27,421.49 (+139.95)
Frankfurt
Commerzbank
1,807.9 (+2.4)

OIL
Brent 15-day (Argus)
$12.06 (-19½cts) (Nov)
West Tex Crude
$13.235 (-3cts) (Dec)

CONTENTS

Troubles mount for the Honduran economy



President Jose Azcona is hampered in his desire to boost the economy of Central America's poorest state by a congress factionalised around 1989 presidential hopefuls unwilling to support unpopular tax measures.
Page 3

Broadcasting: Nordic region succumbs to the lure of commercial television 2
Egypt: *Breeding the steeds of pharaohs for the American market* 4
Metrication: Goodbye to the gill, farewell to the fathom 5
Technology: Every audio-visual presentation tells a story 14
Editorial comment: The politics of mergers; EC opts for sanity 18
Hong Kong: Survey .... Section III
Aluminium: Survey .... Section IV

Europe	2	Agriculture	40	Financial Futures	36	Raw Materials	40
Companies	21,22	Arts-Reviews	16	Gold	40	Stock Markets	37-44
America	3	World Guide	16	International bonds	24	-Wall Street	41-44
Companies	21,23	Commodities	40	Intl. Capital Markets	24	-London	37-39
Overseas	4	Crossword	32	Letters	19	Technology	14
Companies	21,27	Currencies	36	Lex	20	Unit Trusts	32-35
World Trade	5	Editorial Comment	18	Management	31	Weather	20
Britain	7,8	Euro-options	36	Money Markets	24	World Index	44
Companies	28-30			Observer	18		

EUROPEAN NEWS

Fall in French jobless total gathers pace

By Ian Davidson in Paris

AN IMPROVEMENT in the French unemployment figures gathered momentum last month with the largest drop in 10 years. In seasonally corrected terms, the total dropped by 53,600 from 2,610,000 in August, bringing the rate down from 10.4 per cent to 10.2 per cent.

The unadjusted unemployment figure for September was 2,632,817, which was 3.2 per cent up on August, but 1.5 per cent down on September 1987.

The Labour Ministry is taking a very cautious view of the statistics, which it describes as "encouraging", while refusing to speak of a fundamental change of direction. Nevertheless, the figures will come as a major encouragement to the government of Mr Michel Rocard whose efforts to defuse the wave of public sector strikes have been hampered by anxiety that an over-generous wage settlement could spark off a new round of inflation and thus unemployment.

France still faces a potentially serious prospect of rising underlying unemployment, because the country's demographic profile will continue to bring more young people on to the labour market than could be accommodated by the rate of job creation in recent years.

One month's encouraging figures will not remove this prospect. But they do suggest that the combined effect of the buoyancy of the economy, and the continued vigour of the Government's job training and work experience schemes, are producing better results than the government had expected.

Shortly after coming to power in May, Mr Rocard warned that the unemployment level, which was then 2.54m in seasonally adjusted figures, was likely to rise by 200,000-250,000 over the following three months, as a result of the exhaustion, during the period leading up to the election, of funds allocated for job training schemes.

In practice, the new Socialist government has proved adept at remobilising these social schemes after the summer holidays, with 115,000 beneficiaries in September.

Scholz lobs arms appeal into Soviet ranks

By David Marsh in Moscow

MORE THAN 300 Soviet tank officers yesterday heard a strong appeal from Mr Rupert Scholz, West Germany's Defence Minister, for cuts in the Warsaw Pact's massive superiority in tanks and troops in Central Europe.

In a speech in Moscow at the Malinovski Academy, one of the Soviet Union's leading military institutes, and in a series of questions and answers afterwards, Mr Scholz defended Nato's nuclear deterrence policy. He called on the Warsaw Pact, like Nato, to put its forces on a defensive basis only.

Mr Scholz admitted clear misgivings about short-range nuclear weapons based in the Federal Republic which, if used, would explode in either East or West Germany. He said he hoped that "one day" both East and West could dispense with nuclear weapons – although the key to moves in this direction lay with lowering conventional force imbalances, he said.

The two-hour session was an unprecedented event in West German-Soviet relations. Mr Scholz told his audience, all wearing khaki uniforms, that his father had died in the Battle of Stalingrad in 1943. He also spoke of his experience as a child in Berlin at the end of the Second World War when the Red Army took the city.

Afterwards Mr Scholz said he was "moved" by the openness of his reception at the academy, which specialises in tank warfare. Soviet officers said the speech was an example of glasnost in the army.

The minister said his visit to Moscow, which included talks on Monday with General Dimitri Yasov, his Soviet counterpart, "contributed to more understanding" between the two power blocs.

Mr Scholz, who delivered his speech from a podium flanked by large wall reliefs of Marx and Lenin, was thanked afterwards by General Vyacheslav Gordienko, the head of the academy, who said the German guest had helped to narrow differences between East and West.

The speech marked a further effort by Mr Scholz to broaden the field of his ministry to strategic areas up to now dominated by Mr Hans Dietrich Genscher, the Foreign Minister. The development of proposals on armed control was "above all a matter for defence ministries and the military, together with diplomacy," Mr Scholz said.

He told his audience that Nato did not believe that the Soviet Union wanted a war with Western Europe. But he said the "new thinking" in Moscow should be able to do away with the "threatening invasion capacity" of the Warsaw Pact.

He said that Communist forces between 1984 and 1986 had been boosted by 1,600 tanks a year. This represented nearly as many tanks as the West German army possessed overall.

He also reminded his hosts of massive Soviet troop presence in neighbouring countries which threatened the Federal Republic. The 26 Soviet divisions "in our immediate neighbourhood" on the other side of the East-West border represented more troops than West Germany and the US had in Central Europe, he said.

Divisions in Ozal party break out in the open

By Jim Bodgener in Ankara

DEEP RIFTS have emerged in Turkey's ruling Motherland Party (ANAP), accompanied by increasingly vociferous dissent and criticism. The grumbling has risen to a clamour since the Government lost a referendum on September 25, forcing it to abandon plans to hold local elections early.

Dissident MPs have become increasingly disenchanted with the Government's apparent failure to halt soaring inflation save through further austerity measures. Citing corruption and mismanagement, a dozen figures from Prime Minister Turgut Ozal's liberal power base within ANAP have split off this week to form a new faction, together with members of the party's grassroots "holy alliance" of Islamic conservatives and right-wing nationalists.

The liberal dissenters complain that Mr Ozal has retreated into an arbitrary and distant form of rule, surrounded only by his family and close advisers.

A leading ANAP figure and former minister rejected this charge yesterday. "Mr Ozal is not simply a Prime Minister, he has become an international figure and his time schedule is very busy," he said.

The liberal splinter was led by Mr Veysel Atasoy, ANAP's deputy chairman who resigned at the weekend. After a meeting between him and Mr Mehmet Kececiler, leader of the "holy alliance", the new faction openly criticised the lack of contact between Mr Ozal and ANAP's grassroots, and alleged that corruption was losing the party votes.

Mr Atasoy said ANAP's prospects in the local elections, to be held in March, were being seriously harmed by these failings.

The party was cobbled together out of diverse elements in advance of the 1983 return to civilian rule. Its internal problems, said one observer yesterday, simply reflect jockeying for position, with a cabinet reshuffle rumoured to be in the offing, and five empty ministerial posts to fill.

But these problems have been out in the open since last week, when there was an attempt to unseat Mr Adnan Kahveci, a State Minister and close adviser to Mr Ozal.

The issue chosen was the more "modern" content of television following the appointment earlier this year of an Ozal protege, Mr Cem Duna, to head Turkish Radio and Television (TRT), for which Mr Kahveci is responsible.

The Government scraped through a parliamentary vote of censure on TRT, which was moved by the True Path Party of ex-Premier Mr Suleyman Demirel, with "holy alliance" connivance.

Mr Ozal was forced to concede the formation of a special watchdog committee for TRT. The "holy alliance" bloc of around 100 deputies in ANAP's parliamentary majority of 291 seats in the 450-seat Parliament had threatened to vote with True Path.

The row over the more Western direction of TRT programming reflects a fundamental struggle within Turkish society between Islamic traditionalism and the Western secular outlook that the republic's founder, Mustafa Kemal Ataturk, tried to inculcate.

Before Mr Duna's advent, broadcasting, Turkey's most important news medium, had been guided by a confused body of thought called "Turkish-Islamic synthesis."

Soviet anger over Berlin air service

By Leslie Colitt

THE Soviet Union has protested about an airline set up by Air France and Lufthansa which is to serve West Berlin.

Soviet officials see it as an attempt by Lufthansa, which has 49 per cent of the new airline, to use the air corridors to West Berlin illegally.

The three corridors across East Germany are reserved for Western Allied and Soviet aircraft.

The French authorities in West Berlin rejected the Soviet protest, saying the Euroberlin France airline was clearly an Allied organisation and would be operating shortly.

Mr Mikhail Gorbachev on Monday criticised West German attempts to make West Berlin a "touchstone" for Soviet-West German relations in a speech to Chancellor Helmut Kohl.

He rejected efforts by Bonn to represent West Berlin in bilateral agreements as being in contradiction to the 1971 four-power Berlin agreement and the Helsinki Accord.

The new airline aims to begin services between West Berlin and the West German cities of Frankfurt, Stuttgart, Cologne and Munich on November 7 with four aircraft and pilots leased from Monarch, the UK charter airline.

Representatives of British Airways and PanAm, which serve West Berlin, said the new Franco-German airline would provide them with the stiffest competition to date.

Many German passengers who have been critical of the service provided by the Allied carriers may switch to the new airline because of its Lufthansa parentage.

Lufthansa and East Germany's Interflug airline agreed earlier this year to open scheduled air service between Frankfurt and Liepzig as well as Dusseldorf and Liepzig.

However, because of Allied control of the air rights between the two German states, both airlines will be forced to enter each other's air space from Czechoslovakia which considerably increases operating costs.

Kohl encounters cool breezes in Moscow

By David Marsh in Moscow

AMID the welter of Soviet-German harmony in Moscow this week, Mr Mikhail Gorbachev is maintaining a less than enthusiastic note in his personal relations with Chancellor Helmut Kohl.

Moscow has given a warm reception to the industrialists and bankers with the West German delegation. This has been highlighted by ceremonial signing of the stream of business agreements, topped by the DM3bn credit accord led by the Deutsche Bank.

Mr Rupert Scholz, the Defence Minister, and Mr Hans Dietrich Genscher, the Foreign Minister, both say they are very happy with the atmosphere. But Mr Gorbachev has given a clear hint that he has not completely forgotten the freeze two years ago after Mr Kohl indirectly compared him with Joseph Goebbels, the Nazi propaganda chief.

In the stuccoed splendour of the Kremlin's St George's Hall on Monday, Mr Gorbachev gave a less than effusive welcome to Mr Kohl. Although the two men laughed and made small talk through the interpreters, they had to be persuaded by photographers to shake hands a second time to ensure good pictures for the cameras.

In his dinner speech on Monday, Mr Gorbachev lectured Bonn for trying to upgrade the status of West Berlin in bilateral agreements. When Mr Kohl, in reply, made standard references to the need to bring together the two German states, Mr Gorbachev showed irritation, according to onlookers. He pointedly put aside the printed sheets containing the Kohl remarks in their Russian translation.

Mr Gorbachev also used his speech to point some domestic political barbs at the Chancellor. He demonstratively praised two politicians with whom Mr Kohl does not get on – Mr Johannes Rau, the opposition state premier of North Rhine Westphalia, and Mr Lothar Späth, the Baden-Württemberg prime minister who has been regarded as a rival to the Chancellor.

In opening conversation when they met on Monday, officials say that Mr Kohl brought up Mr Gorbachev's book "Perestroika," a best-seller in West Germany, which the Chancellor claims to have read. Rather than getting a compliment back, Mr Gorbachev humorously replied that he had just seen a caricature of Mr Kohl in the latest issue of the news magazine Der Spiegel – a publication the Chancellor hates.

The magazine had printed a cartoon of the perplexed-looking Chancellor arriving in Moscow with a huge suitcase labelled "expectations". Some of these hopes in Bonn attached to the improvement in ties with Moscow have been, Mr Gorbachev seemed to be saying, rather overplayed.

Czechoslovakia bans unofficial protests

By Leslie Colitt in Berlin

CZECHOSLOVAKIA has banned unofficial demonstrations in the Old Town of Prague where dissident groups planned to gather next Friday, the 70th anniversary of Czechoslovak independence, to honour the founder and first president, Tomas Masaryk.

Demonstrations by thousands of young people mainly in the Old Town caught the authorities by surprise on August 21, the 20th anniversary of the Soviet occupation of Czechoslovakia.

Although the forthcoming anniversary has been declared a national holiday almost no mention has been made of the role played by Masaryk.

After concluding the Pittsburg Treaty between Czechs and Slovaks on the establishment of a joint state, Masaryk served as its president until 1935. His son Jan was foreign minister in the Government-in-exile in London during the Second World War and died in a mysterious fall from a window of the Foreign Office Ministry in 1948.

After the Communist takeover that year, both Masaryks became "non-persons" and were briefly restored only in the 1968 Prague Spring under Mr Alexander Dubcek.

A new dissident movement in Czechoslovakia has meanwhile openly called for the "leading role" of the Communist Party to be rejected. Calling itself Movement for Civil Liberty, it was formed after the recent reshuffle of the Prague leadership which confirmed a tough anti-liberalisation policy.

The appeal is part of a 12-point political manifesto signed by 122 Czechoslovaks including the prominent playwright Mr Vaclav Havel and several other members of the Charter 77 civil rights group.

Opposition sources in Prague said that it was the first time since 1968 that a dissident group had been founded to discuss political problems. One opposition member, Mr Jan Urban, said that an impending "economic and political crisis" in Czechoslovakia made it necessary to speak out openly about political alternatives.

Belgium 'will not back Nato report'

BELGIUM has decided against approving a top-level Nato report on short-range nuclear weapons, Defence Ministry officials said yesterday, Reuter reports from Brussels.

The report, which defines the role of such arms in alliance strategy, is to go before defence ministers from the 16-nation North Atlantic Treaty Organisation (Nato) for approval this week at a meeting of the Nuclear Planning Group.

A Belgian Defence Ministry spokesman said: "We believe it would be premature to come out in favour of this report."

Asked if this meant Mr Guy Coeme, Belgian Defence Minister, would withhold endorsement, the spokesman said: "Yes, since we believe it would be premature."

The report, prepared by Nato's High Level Group of military and defence experts, affirms that the Atlantic Alliance will continue to need short-range nuclear forces with a range of less than 500km (300 miles) to pursue its strategy.

US and Nato officials insist the report makes no recommendation about when or how these weapons should be modernised – an issue which has set West Germany particularly at odds with the US and Britain.

But the Belgian spokesman said endorsement would "commit us to a process" which the Government could not accept.

Under the influence of the Flemish Socialist Party, the centre-left Government has swung Belgium away from short-range modernisation and in favour of negotiations with the Soviet Union to reduce these weapons.

Diplomats said West Germany had found no difficulty in pledging to endorse the report at the Nato meeting being held in the Dutch resort of Scheveningen tomorrow or Friday.

MEPs square off as Delors prepares to counter Thatcher

By Tim Dickson in Strasbourg

THE PASSIONS aroused recently by Mrs Margaret Thatcher's views on European union are likely to be rekindled in Strasbourg today in what promises to be a lively debate on the subject in the European Parliament.

The corridors of the assembly were last night buzzing with anticipation after it had been confirmed that Mr Jacques Delors, the European Commission president, would present the Brussels view on a controversial report looking at the results of last year's streamlining of EC decision-making in the Single European Act.

Mr Delors has already publicly reaffirmed his enthusiasm for economic and monetary union and greater EC social involvement in interviews which have been seen as a clear rejection of Mrs Thatcher's position. But observers are today expecting him at least implicitly to counter her arguments or at least allay some of her anti-federalist fears.

Among the three reports to be presented to the Parliament today it is the motion on the results of the Single Act, notably the section on European union, which is likely to attract most interest and prove an important litmus test for British Conservative MEPs.

In words which would not flow easily from the pen of a Number 10 speechwriter it notes that "even if the full potential of the Single Act is exploited to the maximum it falls short of the Community's requirements", particularly as regards foreign policy, security, a common currency with a central bank, energy, development aid, cultural co-operation, education and European citizenship.

Decision-making is also unsatisfactory because "the Commission does still not enjoy appropriate executive power and the Council still remains subject to the unanimity rule in areas that are vital to the Community."

● In another sign of changed times in the Community the Parliament's first reading on the amended 1989 budget – normally an occasion for furious theological differences and even a little blood-letting – passed off virtually unnoticed.

Former Italian ministers cleared

A SPECIAL session of Italy's parliament has cleared two former ministers of taking bribes to award contracts for the sale of warships to Iraq eight years ago, Reuter reports from Rome.

A joint session of both houses voted 412 to 276 on Monday night to clear former foreign trade ministers Mr Enrico Manca and Mr Nicola Capria. Ministers are immune from normal prosecution.

The small Radical Party had accused them of taking kickbacks from Italian shipyards to award the contracts, which were worth L3,500bn ($2.5bn) and pre-dated an embargo on arms sales to Iran or Iraq because of the Gulf War.

UK block hangs over EC funds

By David Buchan in Brussels

BRITAIN'S REFUSAL to follow its 11 EC partners in agreeing to link Community economic assistance to the level of public spending in individual member states remains one of several issues still unresolved only two months before reform of the sharply-increased EC "structural funds" is due to take effect.

A two-day meeting of foreign ministers and officials ended yesterday with agreement on what the thresholds should be for member states' applications to the Community's Regional, Social and Agricultural Guidance Funds, dwhich are due to virtually double to Ecu13bn (£8.58bn) a year by 1992 at 1988 prices.

Alone of the 12 states, Britain objects to overall public spending being considered a factor in what countries receive from the EC structural funds. "We don't want our public spending bound by the relatively small amount the structural funds represent", said one official.

By contrast, the European Commission wants to prevent member states simply cutting back their own spending by the amount that the structural fund will increase.

Other roadblocks that must be removed by January 1 concern transitional arrangements and a dispute, essentially between France and West Germany, over how Brussels should help rural areas in the richer countries of the Community.

France, and to some extent the UK, fear that if such aid goes to, say, carworkers in the rich state of Bavaria who are only part-time farmers, it could become so diluted around the Community as to have no real effect at all.

● Refurbishment of the former home of Sir Francis Drake at Buckland Abbey in the UK, a metropolitan railway for Bilbao in Spain and new roads in the French Massif Central are among the projects granted Ecu289m (£191m) of aid by the European Commission yesterday.

The grants, expected to create nearly 2,400 jobs, form the eight hand-out so far this year from the European Regional Development Fund, bringing the 1988 total to just over Ecu2bn.

As in earlier months, the lion's share goes to developing regions in the southern member states, with Spain, Italy and Portugal, between them taking up Ecu250m or 86 per cent of the latest allocation.

Curiously Greece, which is an otherwise heavy user of EC regional funds, has qualified for no payment from the current tranche.

Swedish arms smuggling affair widens

By Sara Webb in Stockholm

SWEDEN'S long-running arms smuggling scandal has widened to include FFV, the state-owned ordnance group where two employees are now suspected of selling weapons to out-of-bounds countries during the last eight years.

Customs police raided FFV's headquarters in Eskilstuna on Monday and removed documents. Four employees were taken away for questioning.

The fact that FFV is state-owned, unlike other Swedish arms companies involved in a spate of illegal weapons sales, has raised questions once again over the extent of government complicity.

Several senior employees at Bofors and Nobel Kemi, the arms and explosives division respectively of the Nobel Industries group, have been charged with illegally selling weapons to Iran and other Middle Eastern states.

The Nobel Kemi trial opened recently after a prolonged investigation. Defendants have claimed that the government's arms inspector knew that the arms were going to out-of-bounds countries but approved the deals.

Scandinavian countries edges towards freer broadcasting

Robert Taylor in Stockholm explains why even Sweden is finding it difficult to resist technological pressures

THE longstanding political hostility to commercialism in television appears to be ebbing across the Nordic region in the face of irresistible technological change.

In Denmark at the beginning of this month a commercial channel was launched which derives two thirds of its revenue from advertisements and the rest from the television licence. In Norway the minority Labour government of Mrs Gro Harlem Brundtland is proposing legislation to introduce a second state-run television channel by the early nineteen nineties which will be partly funded through commercials.

In Sweden, however, the picture remains more uncertain with a strong rearguard action being fought by the public service lobby. There is still a widespread dislike by many on the political left to the whole idea of advertisements on television and they look with ill-disguised suspicion at the spread of satellite broadcasting.

At last year's conference of the ruling Social Democrats the delegates surprised their more pragmatic leaders when they voiced their strong opposition to any suggestion that the Government should agree to the introduction of a commercial television network into Sweden. There is the familiar fear that this would lower programme standards, undermine the nation's culture and threaten democratic values.

The emerging Greens and the Communist party both endorse these arguments and there is little apparent enthusiasm for commercial television in the middle of the road Centre Party.

As a result, a radical change in a more commercial direction for Swedish broadcasting looks unlikely for the time being. "Nothing is going to happen for a considerable time", says Gunnar Rugenheimer, a leading expert on Nordic television.

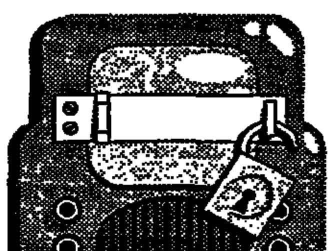
In fact, the present ideological stand against television commercialism is becoming extremely hard to sustain in Sweden.

On January 1 this year Channel 3, a cable-distributed London based commercial satellite service owned by the Kinnevik group, began transmitting to Scandinavia in their national languages. It is estimated that up to 1.7m households in the area can now receive its programmes, with as many as another 60,000 connecting up to the service every month.

Channel 3 broadcasts 45 hours a week of family entertainment with 80 per cent non-Nordic content mainly from the United States and Britain. Last Thursday Channel 3 caused a storm when it announced that it had bought the exclusive viewing rights for the world hockey championships that will be held in Sweden next spring, thwarting the state service.

The station provides a rather different diet than the two channels run by state-owned Swedish Television, where the public service principle ensures a substantial amount of time is still devoted to worthy educational programmes, news and information.

However, the state authorities have not hidden their apprehension at the activities of Channel 3, which is owned by the controversial businessman Jan Stenbeck who now lives in New York. The company is now coming under close scrutiny from the state-run National Cable TV Board, which has the unenviable task of trying to regulate using legislation which was passed two years ago.



DEREGULATION OF BROADCASTING

The 1986 law is beginning to look increasingly anachronistic in dealing with the rapidly changing communications scene. Under its provisions permission has to be granted by the Cable Board for any transmission and re-transmission from a multi-purpose communications satellite and the company concerned must abide by the regulations that are laid down in the law. The trouble is that such restrictions do not currently apply to direct broadcasting satellites.

For the moment Channel 3 is covered by the regulatory authority of the Cable Board and it is not supposed to transmit commercials in its services that are specifically "directed at Swedish viewers", or at least if they are "shown too often".

The language of the law is imprecise and hard to interpret so the dangers of arbitrary action by the authorities are real enough. The Cable Board has the power to enforce an end to transmission for a certain period of time for any programme company that transgresses the legislation.

All sides are acutely aware of the dangers of state repression and censorship of the Swedish media. Indeed, most Swedes like to boast that their country was the first in the world to establish the right of freedom of the press when it was written into their constitution in 1766. But there is also determination to try and protect public service broadcasting from the pressures of commercialism.

Mr Lars Meren in the broadcasting division of the Ministry of Education in Stockholm admits that "the present position cannot go on" but the government has so far failed to make up its mind about what it is going to do.

The dilemmas raised by Channel 3 for the Swedish government is set to become even more acute because the company is to be linked with Astra, a direct broadcasting satellite which is to be launched before the end of 1988.

Earlier this year the government was contemplating changes in the 1986 cable law to extend its provisions to direct satellite broadcasting but it abandoned the plan when it came under widespread criticism for proposing such a step. But if Channel 3 can circumvent the present restrictions in this way the government may have to take some action.

Mr Rugheimer for one believes that this is not really a big issue for Swedish viewers particularly as the dramatic growth of the home video market is satisfying much of the demand not met by television. Moreover, there is an obvious limit as to how far direct satellite television can penetrate the market because most Swedes in the larger cities live in multiple housing blocks and it is not possible for them to make use of individual dishes to receive the programmes.

Yet the moves into commercial television in Norway and Denmark are bound to increase the pressures for change in Sweden, not least from within the underfunded state television service.

The Finns are regarding this current debate with amused disbelief for they have been "corrupted" by commercial television on their national networks for over twenty years.

No doubt, the authorities in neighbouring Estonia dislike this because it has given their people a peep-hole into Finnish standards of living which they can only dream about.

But if the Soviet government is having to bow to the inevitable and accept it cannot do anything about such broadcasts, it is difficult to see how the Swedish government can go on trying to protect their own affluent citizens from the sins of a commercialism they are enjoying every day.

Two Kosovo leaders lose their jobs

TWO ETHNIC Albanian politicians from the troubled Yugoslav province of Kosovo were sacked yesterday, but nationalist Serbs insisted that more personnel changes were needed, Judy Dempsey writes. A group of Kosovo Serbs, who allege that they face harsh discrimination from the province's Albanian majority, have threatened to stage fresh nationalist rallies unless there is a wide-ranging purge. They want to see the ousting of Mr Azem Vlasi and Ms Kacusa Jasari, the two leading political figures in Kosovo.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E.Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: G.D. Owen, Financial Times, Bracken House, Cannon Street, London EC4P 4BY. © The Financial Times Ltd, 1988.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second class postage paid at New York NY and at additional mailing offices. POSTMASTER: send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia) Ltd, Ostergade 44, Copenhagen, DENMARK.

Crackdown on strikers ordered by Sarney

By Ivo Dawnay in Rio de Janeiro

PRESIDENT Jose Sarney of Brazil has ordered a crackdown on striking civil servants, calling for pay to be docked, proceedings against those in breach of regulations and dismissal of strikers in positions of trust.

The tough action comes as officials of economics ministries continue working on a framework for a new anti-inflationary tripartite social pact.

It is estimated that 800,000 public servants, including federal and state employees and staff at the Banco do Brasil had joined the two-week-old protests by last weekend. Some 17 ministries have been hit by strikes though officials claimed that work was continuing normally in most.

The wave of action follows new constitutional clauses legitimising industrial action in the public sector. Civil servants are angry at efforts by Mr Mailson da Nobrega, the Finance Minister, to block pay rises which other ministers wish to grant.

On Monday, the Supreme Labour Court agreed by nine votes to seven to approve a 26 per cent pay rise for Banco do Brasil employees, who have long been campaigning for parity with their colleagues at the Central Bank.

Meanwhile, Mr da Nobrega has been working on details of a new social pact between government, employers and unions aimed at agreeing a common strategy to reduce inflation, now believed to be near 29 per cent a month. The minister has said that details of a new fiscal package, originally expected this week, will not be finalised until tripartite talks, scheduled to begin next week, have hammered out a common approach on pay and prices.

Reports from Brasilia say that the minister has ruled out the application of a negotiated ceiling on pay and price increases – expected to be the main plank of the pact – to interest rates. It had been feared that holding down interest rates would trigger a new retreat by savers from cruzado-denominated assets.

US durable goods orders down 4.1% in September

By Anthony Harris in Washington

NEW ORDERS for durable goods from US manufacturers fell by 4.1 per cent in September, seasonally adjusted, according to the advance report from the Commerce Department yesterday.

The biggest falls were in the volatile defence and transport groups, but there was also a sharp 11.9 per cent fall in orders for non-defence capital equipment, reversing a run of very strong figures.

At the same time the Department of Labor issued new figures for employment costs, which showed that the rise in off-payroll welfare benefits is still accelerating. The rise in hourly pay, however, appears to have levelled off at 3.7 per cent at an annual rate. Total employment costs are now 4.8 per cent higher than a year ago.

Wall Street took the figures phlegmatically, although the drop was twice as big as the consensus forecast. The new orders series has been unusually volatile in recent months, and analysts are reserving judgment until the October figures are known.

There is some suspicion that the seasonal adjustment factors for this unpredictable series may be faulty; on an unadjusted basis orders rose strongly in September, and were 10.4 per cent above their level in the same month in 1987. Non-defence capital goods were up 14.6 per cent on the year, and transportation equipment by 21.1 per cent.

Nevertheless these year-on-year comparisons suggest some slowdown in the capital investment boom of 1988, and the fact that unfilled orders showed virtually no increase over the month is also suggested.

Order books had previously been growing strongly for 17 successive months. The advance figures for order books are generally far more accurate than those for new orders, and are unlikely to be revised by much more than 0.2 per cent – which is the size of the reported increase in unfilled orers.

The lack of response in the bond market to the growing signs of a slowdown in the domestic econoy is only partly due to scepticism about the figures. Some analysts are also worried about the trend of the trade balance after the disappointing August figures, and fear that the dollar may weaken sharply after the US elections.

Miners force U-turn by Garcia

By Veronica Baruffati in Lima

THE miners' strike in Peru is exposing the contradictions in the way the ruling American Popular Revolutionary Alliance (Apra) has sought to deal with labour, with President Alan Garcia back-tracking on policy laid down by decree only two months ago.

The August 17 decree ended the last miners' strike by giving in to a broad platform of demands. However, the Government now realises it cannot fulfil its earlier undertakings, and the miners are on strike again.

The decree laid down basic working conditions, indexed wages and shifted wage negotiations to a national level. It was opposed by the National Mining Society, representing 40 per cent of Peruvian metal production, which claimed the decree was invalid. They took their case to court, obtaining a writ of relief, but the Government has now taken the case to a higher court.

Notwithstanding the government's court appeal, pressure last week from Mr Armando Villanueva, the Petroleum and Mineral Resources Minister known for his hardline anti-terrorist views, led to the signing of yet another decree declaring the mining industry in a "state of emergency". This gives the mining companies the right to fire workers at will.

A team from the International Monetary Fund has discreetly arrived in Lima. This follows an attempt by Peru to establish a dialogue with the Fund in the wake of last month's annual meeting in Berlin. Peru has outstanding arrears of more than $500m with the IMF.

Ironically, the mining companies have been embarrassed by this. They see it as liable to worsen labour relations, and no company has yet taken advantage of the decree to dismiss striking workers.

Some observers interpret the latest decree as the Government's way of frightening the miners back to work; others as an excuse to raid and arrest mining union leaders and hold them for questioning at the anti-terrorist police division; and others see it as one last desperate government attempt to undo what they did by signing the August decree.

At one mine, the Condestable silver and copper mine,where labour relations have traditionally been harmonious, the miners have lifted the strike. Elsewhere the workforce has become divided between those anxious to return to work and those keen to radicalise the strike. The latter want to organise a march to Lima from mining centres throughout the country to demand the release of 15 arrested union leaders.

Meanwhile the decree has made it difficultfor the miners to negotiate: under the decree the strike is illegal and union leaders cannot participate at the negotiating table. At the same time, the National Mining Society maintains it cannot represent all the mining companies because only 30 per cent of companies are affiliated.

Against this complex background, negotiations to end the strike were yesterday once again postponed indefinitely by the Ministry of Labour. There is growing feeling that if a new deal is to be signed with the miners a fourth party will be needed to guarantee the contract.

Exports of $5m per day are being lost by the strike.

Turner impresses in Canada's TV debate

By David Owen in Montreal

MR JOHN Turner, leader of Canada's opposition Liberal party, was yesterday declared a narrow winner of Monday night's televised French-language election debate.

Mr Turner gave a display of unmitigated venom in a bid to salvage his political future. But it remains to be seen if the embattled Liberal leader's gritty performance will translate into French-Canadian votes.

The Conservatives are widely expected to repeat their triumph of four years ago in Quebec, Canada's only predominantly French-speaking province.

The two key Tory initiatives – the US-Canada free trade agreement and the Meech Lake Constitutional accord – are strongly supported by French Canadians. The odds are further stacked in the Conservatives' favour by Prime Minister Brian Mulroney's favourite son status in Quebec.

While Mr Turner was the most impressive because he exceeded the audience's rather low expectations, it was Mr Mulroney who best articulated what most Quebecers wanted to hear.

New Democratic Party (NDP) leader Mr Ed Broadbent, meanwhile, was severely handicapped by the limitation of his French. His tense if plucky performance will have done little to enhance his party's chances of winning seats in Quebec for the first time.

The free trade agreement was the principal focus, with both Mr Turner and Mr Broadbent criticising it strongly.

With the candidates due yesterday evening to resume hostilities (this time in English), the Liberals were looking for a similar performance from Mr Turner to resurrect their stuttering campaign.

After that, all eyes will be turned to the first post-debate opinion poll. In a survey released earlier this week, the Conservatives remained comfortably ahead with the support of 40 per cent of decided voters. The NDP was second with 29 per cent, and the Liberals third with 28 per cent.

Troubles mount for Honduran economy

David Pickles looks at the problems facing Central America's poorest state

THE Honduran economy has been one of the least publicised casualties of the debt crisis and the conflict in Central America. However, the country has now accumulated debt arrears of over $300m, foreign exchange is in increasingly short supply and there are serious political divisons over budgetary control and fiscal reform.

In spite of receiving $900m in US non-military assistance since 1982, Honduras remains Central America's poorest state, with per capita income at $740 in 1986. The hand-outs from the US Agency for International Development (AID) are no longer even enough to plug the balance of payments deficit; and with political ground shifting in Washington as the Reagan era ends, Honduran officials are anxious to broaden their overseas support.

Since 1981, the external debt has doubled to $3.1bn, or 75 per cent of GDP. The total debt service-export ratio is now over 30 per cent.

To a certain extent this debt burden reflects Honduras's ability to borrow during the debt crisis which in turn owed much to US support at the World Bank. The dollar's appreciation also helped up to 1984, cheapening SDR-denominated debt in real terms, as Honduras's exports go mainly to dollar markets.

From 1985, the capital inflows began to dry up. The giant Cajon hydro-electric project was completed – and repayments began on the $375m loan. Cajon's power exports to energy-short neighbours were intended to finance the debt service but economic stagnation and political dislocation have rendered that a pipe dream, and the dam's capacity is sorely underused.

Honduras's flow of official capital (new money minus debt service) turned negative last year. In 1988 it will be minus $65m, compared with inflows averaging $200m in the mid-eighties. As a result, politicians have started to question the "good debtor" policy.

Mr Manuel Bonilla, the nationalist politician and former Economy Minister, recently argued that debt service should be limited to the level of new inflows.

Some help has come from improved exports, with the trade deficit down from $150m in 1984 to approximate balance since 1986, and a $35m surplus predicted for 1988. But though export volumes remain strong, prices continue weak.

Further improvement in the trade balance would require import reductions which in turn would mean that GDP, currently growing faster than the population for the first time since 1979, would have to slow down again.

The balance of payments current account as a whole remains chronically in the red, weighed down by $240m in interest payments and other financial transfers, with a projected 1988 deficit of $245m.

Politicians have started to question Honduras's 'good debtor' policy

With public capital flows drying up, and private capital at trickle level, relief has come from two major sources: big hand-outs from AID, and accumulating arrears on debt service.

The AID Economic Support Fund (ESF) – allocated according to US strategic priorities – provided $150m in 1985, $107m in 1986, $90m in 1987 and a programmed $95m in 1988. Notwithstanding the official "good debtor" policy, a $230m backlog with commercial banks has built up since 1986.

A third source of balance of payments relief has been the circulation of dollars from the US-backed Contra mercenaries in the officially tolerated black market. About 30 per cent of recorded imports are "self-financed" using black market dollars.

In mid-1988, these pressure valves snapped shut. The flow of illicit dollars was hit by cuts in Contra funding, and the black market exchange rate of the dollar, previously stable for five years, rose from 2.4 to 3.1 Lempiras to the dollar. This provoked protests from industrialists, who rely heavily on imported inputs, and from the commercial sector, which relies on the black market for much of its foreign exchange.

In June, AID tied further ESF loans to the clearing of debt service arrears, and froze a $50m instalment. The money was finally released in September when Honduras agreed to the repayment of $43m to the World Bank and $10m to the IMF.

As well as pressing on debt-service backlogs, AID and the World Bank are working together to force domestic economic policy changes, including a $33m cut in the 1988 public sector deficit, the standardisation of import duties, and a speed-up in the privatisation programme.

These are all politically sensitive, and the administration of President Jose Azcona can no longer control the Congress, which is factionalised around 1989's presidential hopefuls, none of whom will support unpopular tax increases.

Resort to devaluation of the Lempira from its official rate of L2 to $1 remains highly unlikely. After 62 years' exchange rate stability, the value of the Lempira has become an important political symbol.

So long as interest rates stay high and export prices stay low, the only obvious way out of the balance of payments vice (apart from deflation) is fresh capital flows. One possibility is that the US, which needs a new permanent home for the Panama-based Southern Command, will be prepared further to increase economic support, and ease off on conditionality.

But prospects for concluding a bases agreement have suffered a setback. Honduras has suspended the negotiations and "anti-gringo" sentiment, which manifested itself in April's burning of the US consulate in Tegucigalpa, has gained increased political significance.

Military tightens grip on ruling party in Jakarta

By John Murray Brown in Jakarta

INDONESIA'S military has reaffirmed its hold over Golkar, the Government's election-winning political party, in a shake-up of the party leadership announced yesterday.

At the end of Golkar's five day national congress, retired General Wahono was formally installed as the new party chairman, replacing Vice-President Sudharmono. The military also increased its representation on the 45-strong Central Committee, the body which co-ordinates policy. However the committee will be run by Mr Rahmat Witoelar.

The reform-minded Mr Witoelar has been largely responsible for the party's increasingly active role in the country's 500-member legislature. President Suharto meanwhile retains his power of veto as chairman of Golkar's seven-man advisory council, effectively the party's top table.

Mr Wahono, a close military colleague of the President, is not widely known outside party ranks. However his appointment is expected to be welcomed by the military who have been increasingly unhappy with Mr Sudharmono's handling of the party.

The military created Golkar in the mid-1960s as a loose coalition of business and labour groups to counter the growing influence of Indonesia's Communist Party – then the world's largest communist party outside China and the Soviet Bloc. Under the Mr Sudharmono, Golkar has emerged as an independent political force, with more than 25m members. In legislative elections last year Golkar secured more then 70 per cent of the vote, using the Government's successful handling of the economy as its main platform.

Recently, however, the military has voiced concern about possible communist infiltration of the party. Only this week it was revealed that a senior regional official of Golkar had been exposed as a former PKI member.

In a related development, retired Admiral Sudomo, co-ordinating minister for political affairs, announced over the weekend plans to set up a new screening agency for government officials.

Hundreds die as Philippines ferry sinks

By Richard Gourlay in Manila

THE Philippines coastguard yesterday said a ferry carrying about 470 people sank with only a handful of survivors after losing radio contact on Monday, as Typhoon Ruby continued to cut a 400-mile path through the northern island of Luzon.

In Manila, the typhoon's tail swept ships ashore, destroyed thousands of homes in flash floods and reminded the capital's population of what is an annual event in less visible parts of the Philippines.

Despite a statement from Sulpicio Lines that the motor vessel MV Dona Marilyn had found a safe refuge, a coastguard spokesman said at least eight survivors had been rescued from Maripipi Island near Masbate in the Central Visayas, 300 miles south of Manila.

It is the second major shipping tragedy in the Philippines in 10 months. In December, the Dona Paz, also belonging to Sulpicio Lines, sank with the loss of over 3,000 lives after a collision in calm seas.

In the capital, President Corazon Aquino visited a temporary refugee centre to deliver relief parcels and commiserated with a woman whose daughter died of measles because the floods prevented her from receiving medication.

Weathermen say the storm, now heading north-west across the South China Sea, is unusually late and follows an extremely dry rainy season. Its effects were felt as far south as Davao City in Mindanao which is normally considered outside the typhoon belt.

It was individual tragedies, however, that brought home the indiscriminate harshness of yet another storm in another Third World country ill-prepared to cope with it or recover.

In the worst hit part of Manila, 15 babies were stranded when their mothers left them on rooftops to fetch help. In the same suburb of Marikina, looters used boats to carry away soaked belongings from abandoned houses and snatched rescued packages from rooftops, according to radio reports.

Radio announcers had to plead for hundreds of people to clear a damaged bridge where, despite torrential rain, they had gathered to see a movie star who was planning to visit flood victims.

Army relief efforts were hampered by the lack of amphibious trucks to pluck people from their rooftops. Enthusiastic radio announcers issued the unusual appeal to private citizens owning amphibious vehicles to volunteer them for public use.

Donations have already started pouring into churches, radio stations and schools wherever crisis centres have been set up. But the wider impact of the 150mph typhoon has not begun to be known. October is harvest time for the main rice crop in central Luzon which was directly in the storm's path.

Throughout the Philippines at harvest time, rice is laid out to dry on rural roads before milling, because most villages lack commercial drying facilities. Frequently this rice is washed away and crops that have been poorly stored are destroyed or lose market value after harvesting.

Almost certainly, Typhoon Ruby will have badly hit rice stocks in this way, observers say.

Israel's parties compete for US finance

Andrew Whitley reports on the vital role of overseas funds in next week's election

WHEN Mr Shimon Peres, the Israeli Foreign Minister and Labour Alignment leader, arrived in New York late last month to meet President Ronald Reagan and address the United Nations General Assembly he had another, equally important, purpose for the trip on his mind.

"Please join Charles Bronfman and myself at a reception for Mr Peres," read the invitation circulated by Mr Arthur Krim, head of Orion Pictures, to a select list of some 50 Wall Street luminaries. The invitation did not actually say – "and don't forget your cheque books" – but it might just as well have done.

US Jews have always been important contributors to Israel's political parties, especially at election time. This year they may be giving less than in the past, because of the coincidence of the Israeli and US elections and because of a degree of disaffection with Israel over issues such as the Palestinian uprising. But, according to Mr Ehud Olmert, a prominent Likud parliamentarian and chief overseas fund-raiser, their role is still "vital".

Exactly how much US Jews have given for the 1988 Knesset elections, scheduled for November 1, no one is prepared to say. But, given that total spending is likely to be in the order of $25m-$30m, it would be safe to assume that at least half this amount will have been dug out of pockets between Brooklyn and Beverley Hills.

To circumvent the legal ban in the US on giving to foreign political parties, much of the funds are channelled through fronts registered as charitable organisations. The Golda Meir Foundation, for instance, nominally an educational body, is actually part of the Israeli Labour party. It is run by a full-time Labour official. The Givat Haviva Institute performs a similar function for Mapam, an Israeli socialist party.

On the right, two known fund-raising bodies are Americans for a Safe Israel – ostensibly an information lobby – and the Eretz Israel Movement, the US end of the Jewish settlers' movement, Gush Emunim. Many Gush Emunim members are, individually, members of the extreme right Tehiya and Kach parties.

The conduits to the right of the Israeli political spectrum are, however, less visible than those to the left, partly because much of their money comes in the form of cash raised in synagogue and Jewish community centre meetings.

Mr Robert I. Friedman, an American journalist who has studied the far right in Israel, notes the success Rabbi Meir Kahane, the US-born head of the extremist Kach movement, usually enjoys in raising funds in this way. "He comes out of these meetings with his pockets literally stuffed with cash," he said.

Kach, recently banned from participating in the election because of its ideology, is believed to have raised as much as $2m – a considerable sum in Israeli terms – in the US this year for its campaign warchest.

New York-based Israelis also point to the close links between certain Jewish businessmen with interests in both countries and prominent Israeli politicians, especially

Israeli Elections

Industry and Trade Minister Ariel Sharon, as a possible route for political donations.

In the course of a coast-to-coast, fund-raising drive last month, party members say Mr Sharon, building his own political base at home, probably raised over $1m.

Such sums of money are unheard of on the left. "The right is much more ready to get out its cheque book than the peace camp," commented Ms Dvora Koss, the US representative of the International Center for Peace in the Middle East. "The number of people giving over $5,000 is very small," said another fundraiser on the left.

All the Israeli parties have devoted considerable time and attention over the past month or so to wooing their American supporters. Each has utilised a familiar mixture of speaking engagements, breakfast meetings with wealthy would-be donors and "parlour" gatherings of known sympathisers. "We're all using the same methods," laughed Mr Olmert.

At times the crush has almost had the Israelis tripping over each other as they make their way along Fifth Avenue. The Likud politician began his tour of the US the day after Mr Peres landed, and just as Mr Dedi Zucker, a Knesset member from the left-of-centre Citizens Rights Movement, was wrapping up his own visit.

A prominent absentee from the circuit this year, however, is Mr Abba Eban, the distinguished former Foreign Minister whose standing and eloquence made him Labour's best asset abroad. He has retired after being demoted on his party's electoral list.

Few of the politicians have much of an organisation behind them, sharpening the complaints of disaffected Foreign Ministry officials who said that Mr Benjamin "Bibi" Netanyahu used his office as Ambassador to the UN to campaign for the Likud shortly before he resigned to run for parliament.

By comparison with the high finance required for an American presidential campaign, Israeli elections are run on a shoe-string. There are no aircraft to hire to cross the country, few hotels are required for overnight stops, even the television airtime is free. The biggest expense of this campaign for the two main parties is undoubtedly the making of their TV advertisements, followed by the hiring of PR consultants and private pollsters.

Political spending is restricted by law to double the amount allocated by the government to individual parties, calculated on the basis of their projected Knesset strength. The Likud, expected to get about 40 seats on November 1, can thus reckon on getting about $5m from the state and is entitled to raise a similar amount from its own sources, according to Mr Moshe Arens, the campaign manager.

Labour will be in approximately the same league, with the 14 small parties who won seats last time restricted to total spending of under $1m.

In practice, well informed Israeli journalists argue, the opportunity to raise money abroad drives a coach-and-horses through the spending ceiling. While contributions made within Israel all have to be declared to the authorities there is no way to check up on foreign donations made through a maze of different channels.

Do the parties honour the stipulated limits on how much they can raise for electoral purposes? "Of course, not," said Mr Ido Dissentshik, editor-in-chief of Maariv, a mass circulation daily. "Everyone raises more than they are allowed."

Indian farmers converge on Delhi for price protest

By K.K. Sharma in New Delhi

TENS of thousands of farmers from all parts of India yesterday converged on the lawns of the boat club near the main offices of the Indian Government in New Delhi and organised a rally which their leaders said was the beginning of a "siege" of the capital.

Mr Mahendra Singh Tikait, president of the Indian farmers' union, declined to say how long the "siege" would last. Other leaders said the farmers had been asked to bring at least eight days' rations with them.

What the outcome of the present phase of the two-year-old agitation will be, is difficult to say, but the farmers' leaders said yesterday that the action would continue until the demands were conceded.

The main demands are more remunerative prices for agricultural produce, the writing-off of all loans, uniformly low rates for electricity supplied to all farmers in the country, and the right to fix the prices of all farm products.

At present, the Government fixes minimum support prices for agricultural produce on the basis of recommendations made by the Agricultural Prices Commission. Although farmers are free to sell their produce in the open market, the actual price is usually around the level of the support price.

Agricultural production in India has risen in the past three decades because of the use of modern methods of cultivation, but growth is uneven in all the states and overall production has been stagnating in the last four years.

The most prosperous farmers in a country where 80 per cent of the population depends on agriculture are in the north-western states of Punjab and Haryana, but even they claim that the high costs of inputs and low sale prices of their produce make farming unremunerative.

The farmers' movement for a better deal is strongest in the politically-important north Indian state of Uttar Pradesh, from where Mr Tikait comes. He has staged impressive demonstrations by farmers in many parts of the country, the most important of which was held last February in Meerut, a town in Uttar Pradesh about 60 miles from New Delhi.

Since then, Mr Tikait and other farmers' leaders have held meetings with the chief minister of Uttar Pradesh who has conceded some of their demands, notably uniform electricity rates, and rejected others. But the farmers' main demand for higher prices for their produce has not been dealt with, since this is a subject handled by the central Government. This is why the agitation has shifted to New Delhi.

Chadli fleshes out reform plans

By Victor Mallet

PRESIDENT Chadli Bendjedid of Algeria has fleshed out his plans for political liberalisation in the aftermath of this month's riots, but as expected he has ruled out a quick transition to a multi-party democracy.

In a communique issued by the official Algerian news agency, Mr Chadli reaffirmed the principle of the one-party state, at the same time announcing measures to promote lively political debate and make the ruling party, the Front de Libération Nationale, more democratic.

FLN membership is to be widened and party officials will be made more accountable to the rank and file. There will be elections for most party posts and non-FLN members will be able to stand for election to popular assemblies.

The measures will be put to an FLN congress due in December and then to a national referendum next year. In another referendum next month, Algerians will vote on a plan to make the Prime Minister answerable to the National Assembly.

Steady decline seen in Israeli economy

By Andrew Whitley in Tel Aviv

WHICHEVER party wins the Israeli election next Tuesday will need to take early action to counter a steadily deteriorating economic situation, judging by a series of private and public forecasts issued in recent days.

The latest report from the Bank of Israel, for the third quarter, paints a sombre picture of declining activity in almost every sector surveyed. Only commerce, which had fallen throughout the year, revived slightly – possibly in anticipation of new measures in the coming months.

Israeli bankers report a near-consensus among businessmen that a substantial devaluation of the shekel, as part of a broader financial package, will be a top item on the new government's agenda.

But likely delays in forming the government, and the need to avoid upsetting end-of-year balance sheets, could put action off until early 1989.

A US State Department report to a Congressional committee on the Middle East, published in yesterday's local press, concludes that the Palestinian uprising in the occupied territories was primarily responsible for upsetting Israel's growth prospects this year.

Instead of a respectable 3.2 per cent rise in Gross National Product, the report says that in the fiscal year to March 1989, GNP growth will probably be in the range of zero to 1 per cent.

The balance of payments deficit is similarly forecast to worsen, from $700m to over $1bn.

On Monday, Mr Dov Lautman, president of the Manufacturers Association, expressed considerable concern over a 10 per cent decline in investment during 1988. "The only thing I am optimistic about is that many others are also worried," he told a conference in Tel Aviv.

Mr Lautman, head of the Delta Galil textile company, said that instead of an expected 14 per cent rise, Israeli exports so far this year have climbed by only 4 per cent. Describing the weakening of economic activity during 1988 as "a cyclical downturn", the Bank of Israel reports that growth in industrial export shipments halted during the the last quarter, while orders showed an actual decline.

Syria in bid to counter Arab moves

By Victor Mallet

SYRIA yesterday launched a diplomatic initiative to counter recent moves by moderate Arab states which seem to be trying to circumvent its uncompromising attitude towards Middle East peace negotiations.

Mr Abdul-Halim Khaddam, Syria's Vice-President, went to Amman to hold talks with King Hussein of Jordan and give him an urgent message from President Hafez al-Assad.

At the same time, Mr Farouk al-Sharaa, Syrian Foreign Minister, flew to Kuwait for a meeting with Sheikh Jaber al-Ahmed al-Sabah, the Kuwaiti ruler. Mr al-Sharaa then went on to the United Arab Emirates.

No details of yesterday's discussions emerged immediately, but the previously unannounced Syrian visits to Arab capitals seemed to be a response to weekend meetings involving Mr Yassir Arafat, head of the Palestine Liberation Organisation, and the leaders of Egypt, Jordan and Iraq.

One of the purposes of those negotiations was apparently to show that a moderate Arab camp would be able to discuss prospects for a peace settlement with a Labour-led government in Israel. An Israeli general election is to take place on November 1.

Syria, allied to Iran and supporting hardline PLO factions opposed to Mr Arafat, seems to have become increasingly isolated in recent weeks.

The fragility of Syria's grip on Lebanon was underlined yesterday by a car bomb explosion in the town of Barr Elias in the Syrian-held Bekaa valley. Several people were reported injured by the explosion on the Beirut-Damascus highway, and one report said the target was a bus carrying Syrian soldiers.

Australian hopes for inflation fall dashed

By Chris Sherwell in Sydney

FIGURES that were much higher than expected for the consumer price index have abruptly halted the downward trend of Australia's domestic inflation, simultaneously throwing into jeopardy the government's recent forecast of a 4.5 per cent annual rate by June next year.

Yesterday's prices figures showed Australia's inflation rate for the 12 months to September was 7.3 per cent, the highest for four quarters and still well above the level of Australia's principal trading partners.

The index was 1.9 per cent up on the June level, with Sydney showing an increase of 2.6 per cent.

The figures are a particular blow because Prime Minister Bob Hawke's Labor administration already faces trouble achieving its current account deficit forecast of A$9.5bn for the year to June 1989, after a dismal first quarter balance of payments performance.

The two indicators are the most critical macro-guides to the Australian economy's much-vaunted structural adjustment, and the trends they are now displaying underline the magnitude of the task still facing the government's policy-makers.

The government's forecasts for inflation and the current account were made in its budget only two months ago, when Mr Paul Keating, the Federal Treasurer, declared that the balance of payments deficit was Australia's "number one economic problem" and inflation its "number one economic disease".

Yesterday, Mr Keating said the government remained determined to restrain demand growth and to secure the maximum possible anti-inflation benefit from its proposed trade-off between wage increases and personal income tax cuts.

The tax cuts – due from July 1 – were an opportunity to bring about a fundamental reduction in Australia's inflation rate, he said, and were dependent on wage restraint now and a negotiated trade-off with the trade union movement over the next few months.

South Africa announces poll security operation

By Anthony Robinson in Johannesburg

SOUTH AFRICA'S police and armed forces have announced a major security operation around voting booths for today's municipal elections which are taking place against the background of a virtually daily toll of protest bombings.

Another bomb exploded close to a security police office in the Transvaal town of Potchefstroom yesterday. There were no victims.

Meanwhile, police broke up student demonstrations against the election at the universities of Witwatersrand in Johannesburg and in Cape-town.

Over 6m people of all races are eligible to vote for 7,105 racially-segregated local councils across the country. The Bureau of Information announced yesterday that 19.3 per cent of registered black voters had already cast their vote during the 10 days of special "prior voting".

This was introduced mainly to reduce intimidation of black voters by anti-apartheid organisations which have called on blacks to boycott elections.

No voting is taking place in over 30 per cent of black councils. Some councillors will be re-elected unopposed but the authorities have been unable to find candidates in areas such as the Eastern Cape and other urban townships where the influence of the African National Congress is strongest.

The government is looking for a relatively high black poll to legitimise its new local authority structures and keep order in the townships. But in the elections for white councils, the ruling National Party is fighting a tough challenge from the right-wing Conservative Party (CP).

The key issues are security and the future of racially-segregated residential areas. The CP says it will make the new Regional Services Councils (RSCs) unworkable and re-apply all the old apartheid laws in local areas over which it gains control.

The CP's main target is control over the capital, Pretoria, while all parties see the elections as a dress rehearsal for possible general elections next year.

Mythical steeds of the pharaohs seek US buyers

Tony Walker, in Cairo, reports on moves to recapture glories of breeding classic Arabian horses

FOR DR Ibrahim Zaghloul, breeder of Arab horses, it was a moment of pride. "Look at his strong fine bones, lovely face, good back and high tail carriage – these are most of the characteristics of the pure Arabian," he declared.

Dr Zaghloul was parading Adel, his grey stallion, great grandson of the legendary Nazeer, descendant of the Jellabi strain of Bedouin horses from the desert sands of Arabia where warlike tribesmen bred strong courageous steeds.

The handsome animal knew it was on show. It arched its neck, flared its nostrils and showed its best profile to emphasise, it seemed, the distinctive "dished" face of the classic Arabian.

"You can't say there is a thoroughbred breed apart from the Arabian," Dr Zaghloul said proudly.

In a way, he is right. All thoroughbreds are influenced by Arabian bloodlines. Many top foreign horse breeders believe that Egyptian Arabians are the best, the most classical of the breed, but that today few of the outstanding examples remain in Egypt itself. Rather, they can be found in the studs of North America, Europe and Australia.

Dr Zaghloul, who is studmaster of the government-owned al-Zahraa stud in suburban Cairo, would not agree. He is a little disdainful of some of the American "modifications." US breeders are producing horses with "bigger heads" and "heavier bones" – in contrast to the finely-built classic Egyptian Arabians.

Horse breeding and respect for horses have a long tradition in Egypt going back to the Pharaonic era. Rameses II (1304 – 1237 BC), regarded by many scholars as the greatest ruler of the ancient period, decreed after a penultimate battle with the warrior Hittites in what is now Syria that his horses, as a reward for valour, should always be fed before him and live comfortably for the rest of their days.

"They were under my hand when I was alone in the midst of the trembling enemy," wrote Rameses surrounded and seemingly in danger of defeat, until his chariot was dragged to safety and the enemy withdrew.

Experts say that the strain of Egyptian horses produced last century is the purest surviving form of Arabian. Such was the arrogance of Ottoman breeders that Abbas Pasha, Viceroy from 1848-1854, told the ruler of Würtemburg, now in West Germany: "never for a moment must you believe that the horses born in your countries are genuine Arabs, for the simple reason that the Arab horse can scarcely keep its quality and characteristics unless it breathes the desert air."

It is one of the tragedies of Egyptian horse breeding that by the early

The true Arab horse "must breathe the desert air."

twentieth century, Abbas Pasha's breeding efforts had been largely dissipated. His own stud had been dismantled along with that of Ali Pasha Sherif, another Egyptian noble, who sought to preserve the high standards of the earlier Ottoman period.

Today, Dr Zaghloul and well-known private breeders like the Marei family are trying to revitalise a potentially lucrative industry. Dr Nasr Marei said that Egypt "right now does not have top quality first class stallions." He attributes this to inbreeding and bad selection over the past two decades.

Dr Marei said that criticism of the Government-administered stud run by Dr Zaghloul that it had sold off some of the best stallions, thereby depriving Egypt of its quality, sires, was unfair. It has been in Egypt's interests, he said, for the strength of the breed of Egyptian Arabians to be clearly established internationally.

Judging by prices paid for Egyptian Arabians in the US market this has been achieved. A one-ninety-sixth share was sold recently in an Egyptian Arabian stallion for $110,000, making the horse worth about $10m. Dr Marei said that he had been trying to "change a little" his breed of Arabians to meet the demands of the US market. One of the changes was to breed horses with shorter necks to make them look more compact.

In Egypt, the best quality Arabians sell to foreign buyers for from between $10,000 – $100,000. The market in the past two years has, however, been disastrous, according to Dr Marei. This is partly because of changes in US tax shelter arrangements that now make it less attractive for investors to put their money into such exotic investments.

Less than 3 per cent of Egyptian Arabians are among registered Arabians worldwide, but their influence far exceeds that number. In Egypt itself there are only 1,200 registered Arab horses whose details from the date of conception are kept in dark blue ledgers in Dr Zaghloul's office.

Egypt is trying to recreate the glory of the desert steed of mythical times. After all, it was the Prophet Mohammed who decreed, and so it is written in the Koran, that "every man shall love his horse."

UN seeks direct talks on Western Sahara dispute

THE United Nations yesterday asked Morocco and the Polisario Front to begin direct negotiations "the shortest possible time" aimed at a Western Sahara ceasefire and referendum on the territory's future, Reuter reports from the UN.

The vote in the decolonisation committee of the General Assembly was 87 to none with 53 members abstaining. Morocco, which claims sovereignty over the former Spanish colony, has refused to hold direct talks with Polisario, whose forces have been battling the Moroccans for 12 years.

Mr Javier Perez de Cuellar, UN Secretary-General, who has been using his good offices in the search for a peaceful settlement, recently appointed a jurist from Uruguay, Mr Hector Gros Espiel, as his special representative on the issue.

Immediately after the committee vote, Mohamed Sidati, the Polisario foreign affairs spokesman, issued a statement welcoming the call for talks.

"In spite of intense activism and manoeuvres of all kinds, the kingdom of Morocco has again failed in its attempts to create confusion in the United Nations about the unique pattern and on the indispensable conditions for ending the armed conflict," he said.

The resolution reaffirmed that the Western Sahara question was one of decolonisation that remained to be completed on the basis of the right to self-determination and independence.

It also reaffirmed that the solution lay in implementing a resolution adopted by the heads of state and government of the Organisation of African Unity that established ways and means for a just, definitive solution to the conflict.

The committee, whose resolution will go to the UN General Assembly plenary for ratification, requested that the two parties to the conflict "undertake direct negotiations in the shortest possible time, with a view to bringing about a ceasefire to create the necessary conditions for a peaceful and fair referendum for self-determination of the people of Western Sahara."

It added that this would be a referendum "without any administrative or military constraints, under the auspices of the Organisation of African Unity and the United Nations."

Blueprint to enhance work of Gatt tabled

By William Dullforce in Geneva

A DETAILED blueprint to improve the functioning of the General Agreement on Tariffs and Trade (Gatt) and to enhance the world trade organisation's role in global economic policy-making has been tabled in the Uruguay Round multilateral trade talks in Geneva this week.

Prepared by a group of some 12 countries outside the three big trading blocs of the US, the European Community and Japan, the plan attempts to formulate decisions to be taken by trade ministers when they meet in Montreal in December. It was favourably received by the big three traders yesterday.

If the ministers agree, Gatt would initiate next year a mechanism for conducting regular reviews and assessments of national trade policies and practices. The blueprint spells out how the mechanism would work.

It also calls for trade ministers to meet at least once every two years to make a fuller contribution to the direction and content of Gatt work.

In addition, Mr Arthur Dunkel, Gatt's director-general, would be instructed to explore with the heads of the International Monetary Fund and the World Bank ways of strengthening the relationship between Gatt and those two organisations.

Mr Dunkel would be asked to file a preliminary report on these talks by July 1 and to recommend specific measures by the end of 1989.

Gatt's relations - or lack of relations - with the IMF and the World Bank have become a matter of increasing concern for negotiators in the multilateral trade talks.

Countries that helped to formulate the plan tabled this week come from both industrialised and developing categories and represent a wide geographical spread. Among them are Australia, Canada, Colombia, Hong Kong, the Nordic countries, South Korea, Singapore, Switzerland, Uruguay and Zaire.

They have tried to resolve differences separating the big trading powers and large developing countries such as Brazil and India.

Thus, the controversial question of whether a smaller group of ministers should be established, to meet more often than every second year, would be left for decision later in the Uruguay Round.

On the trade policy review mechanism, however, the blueprint is specific. The policies and practices of the four major traders - adding Canada - would be reviewed every two years.

Sixteen other "core" traders, calculated by average share of world trade, would be examined every four years and the rest of Gatt's 96 members every six years.

Governments would have to report annually to Gatt. Full reports would be required in years when their policies are up for review. Briefer reports, outlining changes in policies, would be provided in the years between.

Reviews would be conducted by the Gatt council at special sessions, when it would have before it the country's own report and a report from the Gatt secretariat.

The secretariat's report would be based on discussions between it and officials of the country under review. A list of questions would be submitted in advance. This could include questions raised by other countries.

The blueprint leaves open the question of whether the discussions should take place in the capital of the country concerned or, as some developing countries insist, in Geneva.

Amendments will almost certainly be made to the blueprint before it is presented to ministers for approval in December but its main features are likely to remain intact.

Tokyo backed over inquiry

JAPAN won considerable support from other countries yesterday in its attempt to pursue its case against the European Community's anti-dumping regulations in the anti-dumping committee of the Gatt, reports our Correspondent in Geneva.

The EC carried out its threat to block the Japanese move, arguing that its action against Japanese manufacturers' "screwdriver" assembly plants had been taken under Gatt general rules, not under the anti-dumping code.

However, Canada, Australia, Brazil, Hong Kong, New Zealand, Singapore and South Korea all spoke up in support of Tokyo's right to have its case heard in the committee as well as in the regular Gatt disputes panel, which the EC has accepted.

HK governor condemns 'creeping bilateralism'

By Peter Montagnon, World Trade Editor

THE MULTILATERAL world trading system is coming under increasing threat from the bilateral approach to trade policy being adopted by the major trading powers, Sir David Wilson, the Governor of Hong Kong, warned in London last night.

"We see a continuation of creeping bilateralism as ultimately disastrous for the world trading system," he said in remarks prepared for delivery to the Hong Kong Trade Development Council annual dinner.

Sir David said he was concerned by calls for reciprocity in European trade policy after 1992, but in an apparent reference to the US-Canada Trade Agreement and informal discussion about a possible US-Japanese agreement, he continued:

"There is an increasing tendency throughout the world to form, or to consider forming, trading blocs and free trade associations. Sadly these tend to share one common tendency - that is, they secure preferential treatment for their participants to the exclusion of third parties."

His warning is likely to carry additional weight because of Hong Kong's generally acknowledged reputation as a conscientious practitioner of the principles of free and non-discriminatory trade.

Hong Kong had little to fear from European calls for genuine reciprocity, he said, but there was a concern that too much emphasis on reciprocity could lead to a defensive mentality which would make Europe inward looking. It would also weaken multilateral trading principles enshrined in the General Agreement on Tariffs and Trade (Gatt).

"It would be very damaging if a preoccupation with the immensely difficult task of creating an internal market in Europe resulted, however unintentionally, in Europe becoming more introspective," he said.

The dangers of the trend towards bilateralism for a place like Hong Kong were clear, he said. "The trade world might dissolve into a set of cosy, but exclusive economic blocs."

Hong Kong, as a contracting party to Gatt in its own right, was devoting all its efforts to making a success of the Uruguay Round of multilateral trade negotiations.

Sir David also drew attention to Hong Kong's open market in an effort to distinguish Hong Kong from the other newly-industrialising economies of Asia. Hong Kong, he said, was not a predatory exporter.

In a direct message to the UK exporting community he suggested they were not making sufficient use of Hong Kong's fast-growing role as an entrepôt for China trade. Less than a quarter of the £915m in UK exports to Hong Kong were re-exported, a figure which suggested the UK was falling behind other countries, he said.

Fiat in US collaboration

FIATALLIS, an earth moving equipment subsidiary of the Fiat group, said it plans to manufacture a new range of back hoe loaders in Italy as part of an industrial collaboration agreement with Deere and Company, the US agricultural equipment producer, Alan Friedman reports from Milan.

Fiat said yesterday the collaboration between Fiatallis and Deere would refer only to the design phase, while production would be separate.

The Italian part of the accord calls for Fiatallis to gear up over the next 18 months to manufacture 2,100 loaders a year. Fiat said this would result in turnover of L110bn (£47.2m) a year. The loaders are to be sold through Fiatallis's distribution network in Europe, Africa and the Middle East.

Fiatallis had 1987 sales of L833bn, down by 6.7 per cent on 1986 sales. Fiat took control of Fiatallis in 1985, ending a six-year dispute with Allis-Chalmers, the US corporation.

Output of textiles in West slows

By Alice Rawsthorn

THE TEXTILE industries of Western Europe and North America experienced a significant slowdown in activity in the second quarter of this year, while the emerging industries in the Far East continued to expand.

Changing patterns of consumer demand in many world markets also help to explain the slowdown in the West.

The latest statistics from the International Textile Manufacturers Federation (ITMF) in Zurich show that in the spinning sector, Italy, the UK, Canada and the US output fell by over 4 per cent compared with the second quarter last year.

Similarly weaving output in Italy, the UK, Belgium and Switzerland declined by over 5 per cent. By contrast Pakistan and the South Korea increased both spinning and weaving production.

The shift to the Far East has been accelerated in the past year or so by the comparative strength of Western European currencies against the Far Eastern currencies that are linked to the US dollar.

As a result textile industries in countries like Italy, France and the UK have suffered the parallel problems of sluggish exports and an increase in imports.

Good-bye to the gill, gallon and all that

William Dawkins weighs the proposed changes to the British imperial system

IT COULD soon be good-bye to the fathom, gill, quart and gallon among many others of the units that make the UK's imperial system infuriatingly complex to its critics and archetypally British to its supporters.

Yesterday's announcement by Mr Francis Maude, junior minister at the Department of Trade and Industry (DTI), that the European Commission would like to get rid of a large number of British and Irish imperial units, is the start of a public consultation over just which units should go and when. It is bound to be controversial.

To give one idea of the practical problems, the 1.2bn returnable bottles of imperially measured fruit juice, cider, beer and other drinks that the DTI reckons are now circulating in the UK would have to be scrapped in just over 10 years. Makers of weighing machinery and navigation equipment would have to redesign some of their products.

But in the end, Britain and Ireland's room for manoeuvre is limited by the fact that the final decision will be taken by a majority vote of the EC's 12 member governments. So if the news goes down so badly with the public that both governments are forced to dig its heels in, they could be outvoted.

Trade officials are cautiously betting that will not happen. The UK has struck a preliminary deal with the Commission which keeps in place the units that British hearts are thought to hold dear - like pints for doorstep milk bottles or beer in pubs - and gives plenty of time, until the end of 1999, to phase out units still commonly used in industry. The government sees the deal as no threat to its sense of sovereignty at this stage.

> Few people under 25 are likely to stick up for the imperial system.

Brussels' reason for wanting to see these units go is that they add up to a classic form of non-tariff trade barrier. Milk bottles and pint mugs of beer are to be spared because they are not traded across borders. But it does not help companies to have to package things twice in metric and imperial-sized containers or calibrate equipment twice. That applies whether they are exporting from continental Europe into Britain or selling from the UK across the channel, the argument goes. So imperial units used in those areas, already disappearing under the influence of market forces, are scheduled for the scrap-heap.

Yesterday's announcement is the latest stage in a process that began nearly 10 years ago, long before the present campaign to create a barrier-free Europe was even a twinkle in the Commission's eye, and which has quite a way to run yet. In 1979, EC member states accepted a Commission proposal which gave the Brussels authorities the duty to come out by the end of 1989 with a deadline for the end of the imperial system.

The deal now on the table is only provisional. Other member states get their first say at a meeting of national officials in Brussels on November 4. Then the Commission is expected to come out with a final plan at the end of this year or early next, following which it must be adopted by EC governments before it can take effect in British and Irish law. What is now on offer has been worked out in the following way.

Apart from pints of beer and milk, the Commission is offering to spare miles, yards, feet and inches as used to measure distance and speed. It would be unfairly expensive for Britain to have to change its road signs especially when - like doorstep pintas - they are not traded internationally. Also spared are acres, as used for land registration, a unit especially dear to the Irish, and troy ounces for weighing gold, on the grounds that they constitute a world industry standard.

Another class of units is scheduled for demolition by the end of 1999. This includes fathoms, as used in marine navigation, where it was felt that shipowners and makers of navigation equipment needed plenty of time to make the changeover. The same thinking applies to therms, as used by the gas industry and pints and fluid ounces as used to measure the contents of returnable bottles.

> The final decision will be taken by a majority vote of the EC's 12 members.

Pounds and ounces as used for loose goods, like bags of carrots, are also given until 1999. Irish officials are understood to have asked for that delay to soften the impact for the tiny village shops that are near the heart of Irish rural life.

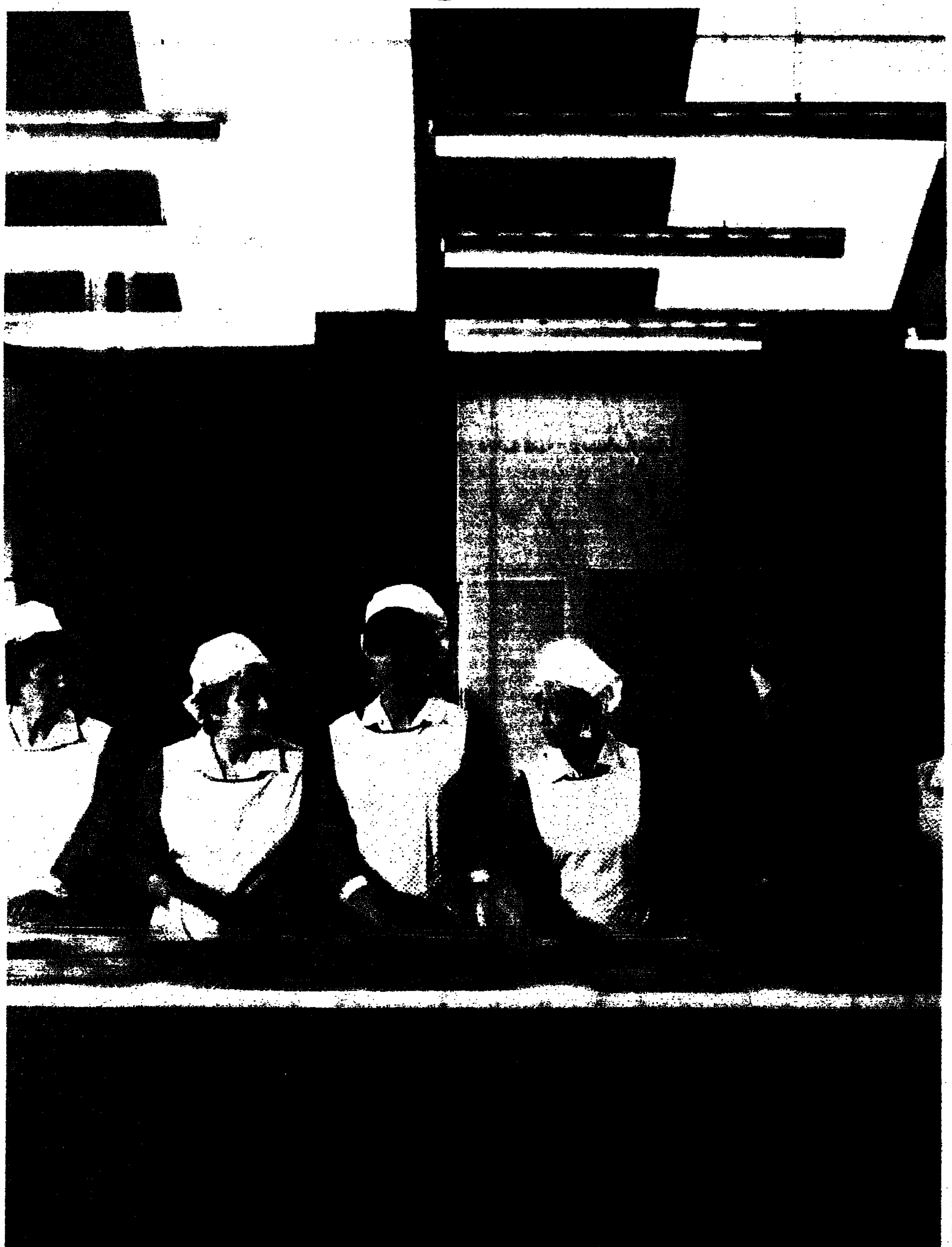
Nobody knows what other EC Governments think yet, but it is conceivable that some might press for that 1999 deadline to be shortened to give their own makers of metric measuring equipment an earlier chance to take advantage of the UK and Irish markets.

The final class of units is scheduled for abolition much earlier, by the end of 1994, because it is thought that few people would miss them. That includes things like square feet and yards, the gill, quart and gallon. It is unclear what happens where those measurements are still in common use, like fractions of gills for spirits in pubs and restaurants, or even noggins (a full gill) for the really thirsty.

Sports enthusiasts can rest assured that cricket pitches would still be 22 yards long and that horse races would still be measured in furlongs, since these measurements either do not affect trade or are international norms.

One of the big uncertainties ahead is just how mandatory the rules will be. The other, of course, is how the public will react. Few people under 25 are likely to stick up for the imperial system, since schools started teaching the metric one in 1974. If there is opposition, trade officials expect it to come from industry, where many companies - especially in the food business - still use imperial measurements for trading between each other.

"So when's that new bank manager coming round, Doris?"



There's no mistaking Lloyds Bank Commercial Service Managers.

They're the ones who know that if they're to help your business grow, they need to know what makes your business tick.

They're the ones who are interested in people's opinions. Be they on the shop floor or in the boardroom.

The ones who make it their business to know how your products are made or your services sold.

The ones who know that simply glancing at your budgets and accounts can't give them a true understanding of the problems you face.

Nor, more importantly, the opportunities that exist.

But then Lloyds Bank Commercial Service Managers do occupy a rather unusual position in the banking world.

They only specialise in one thing: medium-sized businesses.

Which by definition means that they are experts in this field.

It also means they have a limited customer list.

So they can spend plenty of time getting to know your business intimately. Its needs. And its aims.

And when an opportunity comes along they'll be able to suggest ways your company can take advantage of it.

And you'll know you can trust their advice.

Currently, we have 200 Lloyds Bank Commercial Service teams working from over 60 offices nationwide.

If you'd like to meet one of our Managers call 0800 444122, free of charge.

We promise you he, or she, will be ready to start straight away.

Lloyds Bank Commercial Service

THE THOROUGHBRED BANK.

Lloyds Bank Plc, 71 Lombard Street, London EC3P 3BS.

LSE computer service delayed amid rules row

By Clive Wolman

THE LONDON Stock Exchange has postponed the introduction of its SAEF automatic execution facility which would allow small investors to buy or sell shares at the touch of a button, amid protests that it is manipulating its rules to drive out competitors.

The protests are directed at a draft rule change agreed by the Stock Exchange Council and its markets committee, due to be published today. They highlight the exchange's embarrassment at competing head-on with its member firms.

Kleinwort Benson and Barclays de Zoete Wedd, UK investment houses, already offer a computerised automatic execution service alongside normal market-making activities.

The Stock Exchange's draft rule will prevent such transactions being carried out through their systems unless the firms are quoting the most favourable prices through the Exchange's screen-based price quotation system.

"We are going to fight this one all the way," said Mr Robert Harley, director of settlements at Kleinwort, yesterday.

Mr Peter Holloway, head of BZW's market-making, said: "The goal posts are being shifted because we have managed to get ahead technologically."

The automatic system, presented as a response to government criticisms of the high transaction costs imposed on small shareholders, was due to be introduced next month.

It has been delayed, probably until mid-February, because of hitches in installing work stations in stockbrokers' offices and wrangling over the rules by which the system will operate.

The Kleinwort Benson "Best" system and the BZW "Trade" system, guarantee that bargains keyed in by stockbrokers will be transacted at the most favourable prices quoted in the stock market as a whole. Kleinwort and BZW argue that stockbrokers will be deterred from using their services if they are uncertain as to whether an order will be refused.

Watchdog calls inquiry into Clowes audit firms

By Clive Wolman and Michael Cassell

SPICER and Oppenheim and Touche Ross, the two accounting firms which audited the Barlow Clowes investment companies in the three years before their collapse, face the risk of disciplinary action as a result of an investigation announced yesterday.

The investigation has been set up with unaccustomed speed by the Institute of Chartered Accountants in England and Wales after it received a letter last Thursday from the Department of Trade and Industry.

A three-man team has been given a deadline to report by December 31 and a decision will then be made whether to institute disciplinary proceedings against the two firms.

Disciplinary actions against professional firms traditionally have a powerful influence on subsequent court decisions. The auditing firms and financial advisors who recommended Barlow Clowes are now viewed as the most likely source of compensation for the investors in view of the DTI's refusal last Thursday to accept responsibility for the collapse.

Mrs Margaret Thatcher, the UK Prime Minister, said yesterday the setting up by the private sector of a "lifeboat" fund for investors in the collapsed Barlow Clowes investment group would be "very welcome." But she indicated that the Government remained opposed to using taxpayers' money.

Asked in the Commons whether she would give urgent attention to the possibility of a Government contribution towards any such fund, Mrs Thatcher said there was confusion over the use of the term "lifeboat" in connection with financial rescues.

She recalled the Bank of England's efforts in the 1970s to help save the secondary banking sector from collapse but stressed that no public funds had been involved and said that the banks either had to repay the funds made available or face liquidation.

The Institute of Chartered Accountants became interested in investigating the Barlow Clowes case when the inspectors appointed by the DTI presented their affidavit to the High Court in May which led to the winding-up of the Barlow Clowes companies.

The DTI asked it not to take any action immediately because of the investigation into its handling of the case by Sir Godfray Le Quesne. When Sir Godfray's report was published on Thursday, the DTI immediately wrote to the Institute, the leading accountancy professional body, suggesting that it may wish to examine issues arising in it.

The Le Quesne report highlighted the extent to which the DTI officials relied on reports by Spicer and Pegler, as Spicer and Oppenheim was then called, from 1985 until it resigned as auditors in April 1987.

CBI QUARTERLY INDUSTRIAL TRENDS SURVEY

High rates 'threaten small business'

By Peter Norman, Economics Correspondent

A PROTRACTED period of high interest rates could pose a threat to the buoyant investment outlook in British industry, the employers' Confederation of British Industry (CBI) warned yesterday.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said high interest rates could be particularly damaging for small companies, which have been the main source of increased employment in manufacturing industry.

The chairman's warning came in his introduction to the CBI's latest quarterly Industrial Trends Survey.

"Industrialists strongly believe the Chancellor's measures to curb excessive demand and credit should be given sufficient time to work," Mr Wigglesworth said. But "persistently high interest rates" could be a real danger for small companies.

"They will need a reduction to more moderate levels if their start-up and expansion plans, which have a positive impact on job creation, are not to be put at risk," he said.

The CBI survey of 1,245 manufacturing companies found that 40 per cent of companies plan to increase spending on plant and machinery over the next 12 months, while only 19 per cent plan to reduce such investment.

Although nearly three-quarters of companies said they planned to increase investment to boost efficiency, 42 per cent also said their main reason for increasing investment was to expand capacity.

On the basis of its findings, the CBI forecast that investment would increase by 15.5 per cent at an annual rate in the second half of this year and by 11 per cent in the first half of 1989. It predicted manufacturing output would grow at an annual rate of 7.5 per cent in the third and fourth quarters, resulting in a 7.2 per cent gain for 1988.

The CBI reported that business confidence remains good, although it is less broadly based than at the time of its previous quarterly survey in July. Between the two surveys, British bank base rates were lifted to their present level of 12 per cent following the sharp deterioration in the country's current account balance of payments deficit in July.

The CBI survey uncovered some evidence that the economy has been growing too strongly, although 80 per cent of the companies polled said their present fixed capacity is at least adequate to handle future demand.

Nearly 30 per cent of companies expressed fears about likely capacity constraints and skill shortages and an increasing number said they had either increased or planned to increase their prices.

The CBI said it expects industry's output prices to rise by 5.2 per cent in the final quarter of this year compared with the same 1987 period after increasing by 4.9 per cent in the third quarter.

Mr Wigglesworth said the recent sharp increase in Britain's rate of inflation would be bound to increase pressure on companies in the forthcoming autumn pay round. "Union negotiators relate their pay expectations to the retail price index," he said.

Retail price inflation reached an annual rate of 5.9 per cent in September

US reactor to 'boost' Hinkley Point C

By David Green

THE Hinkley Point C nuclear power station in Somerset would perform better than many existing plants of the same type elsewhere in the world, a senior Central Electricity Generating Board official claimed yesterday.

Mr Brian George, director of the board's pressurised water reactor (PWR) programme, said the power station would be based on a design by Westinghouse of the US.

He told the Hinkley Point C public inquiry that where Westinghouse technology had been transferred to countries with an established nuclear framework, such as the UK, the performance achieved had been substantially better than experienced in the US.

This was true of Japan, Germany, Belgium and France, he said.

The CEGB has based its economic assessment for the 1,200MW Hinkley Point C station on an annual full-power availability of between 66 and 75 per cent.

However, the performance target for the £1.47bn project varies between between 70 and 90 per cent.

The forecasts are higher than those used in the economic case for Sizewell B, Britain's first PWR nuclear power station.

Objectors to the Hinkley station suggested in cross-examination yesterday that, in view of figures from some PWRs including those in the US, forecasts paint too rosy a picture of the likely performance of the plant.

Mr George said no relevance had therefore been attached to performance figures from early generations of the PWR.

Barclays introduces performance pay scheme

By Michael Smith, Labour Staff

BARCLAYS Bank has signalled its intention to introduce a comprehensive performance-related pay scheme for its 80,000 staff.

If implemented it would be the biggest move so far in the UK towards linking pay to the quality of an employees' work.

All of Britain's big four clearing banks either have plans for or have already introduced performance-related pay for managers but Barclays wants one covering all staff.

Such a scheme could have repercussions for the way people are paid throughout the financial services industry.

Barclays said yesterday that it wanted its performance-related pay scheme for managers to be in place by 1990.

But it added that it had no immediate plans for a scheme for more junior grades, which include messengers and secretaries.

However, unions are concerned that Barclays may use a proposed overhaul of pay and grading structures for all staff under management level to bring in performance-related pay.

Performance related pay is supported by employers' organisations such as the Confederation of British Industry as a way of motivating staff.

Lloyds to pay interest on current account deposits

By David Barchard

LLOYDS BANK customers with current accounts are to be paid interest on their deposits from January 4, contrary to normal practice in UK retail banking.

The move, announced yesterday, is likely to be followed by the other leading clearing banks, which have so far been reluctant to take such a step because of its impact on operating costs.

Lloyds is the smallest of the big four British clearers. Within hours of its announcement yesterday, TSB and Midland indicated that they, too, intended to launch interest-bearing current accounts in the next few months.

The decisions could presage the start of a fierce high street war between the banks. Lloyds made another strongly competitive move three weeks ago when it said it would extend bank opening hours from the present 3.30pm closing to 4.30pm – the first such extension in 19 years.

Lloyds's latest move appears to be aimed principally at the interest-bearing current accounts launched in the past 18 months by Abbey National and Nationwide Anglia building societies. These have been taking large numbers of customers from the banks.

Warning over Piper inquiry fees

FAMILIES of the Piper Alpha victims could be left without legal representation at the disaster inquiry unless Occidental, the oil company, agreed to pay for them, an Aberdeen solicitor warned yesterday.

"It will be a scandal and quite deplorable if these people are not represented," said Mr David Burnside, leader of the lawyers for those who lost family members in the explosion which killed 167 workers.

Mr Burnside said Mr Peter Morrison, UK Energy Minister, had suggested the families should ask Occidental, owner of the platform, for help.

Legal representation for the families at the inquiry, due to start on November 11, is expected to cost about £500,000.

Occidental said it would wait for an approach from the lawyers' group."

UK NEWS

Government to put out tender on DBS stations

By Raymond Snoddy

THE GOVERNMENT plans to put Britain's remaining two direct broadcasting by satellite (DBS) channels to competitive tender.

The news will disappoint British Satellite Broadcasting (BSB), the consortium awarded the first three of Britain's DBS channels and which hoped to be awarded the other two.

Each European country was allocated five DBS channels in 1979 by international agreement.

The Government will make clear its intention to use a tendering process in the policy paper on broadcasting expected to be published next month.

The task of allocating the two channels will go the planned commercial television authority which is to replace the Independent Broadcasting Authority.

BSB, a consortium which includes Granada, the Bond Corporation and Pearson, publishers of the Financial Times, plans to launch its three new channels in September 1989.

The Government has already given undertakings that no competing DBS channels will be launched until three years after BSB.

BSB has already suggested to the Government that one of the spare DBS channels could be used as a "common carrier" pay channel. Companies could lease a few hours a day on it for specialised programming. The other channel could be used for education, arts or travel programming.

The BBC will be encouraged in the policy paper to use one of its two national television channels as a subscription service in the early hours of the morning to supplement its licence fee income.

The Government decided at the final meeting of the Cabinet Committee on broadcasting last week that the BBC will lose one of its television channels during the night – probably from 1 am to 6 am.

The BBC channel during those hours will be regulated by the new commercial authority which will also allocate ITV's night-time hours as a separate national franchise.

Apart from losing a television channel in the middle of the night and some encouragement to move towards raising more money from subscription, the basic structure of the BBC will survive the Government's current legislative plans.

The future of the BBC will be debated, however, in five years' time.

Virgin, Videomusic seek Super Channel takeover

By Raymond Snoddy

A MEETING between Mr Richard Branson, chairman of the Virgin group and executive from Videomusic the Italian television company is possible this week to discuss the future of Super Channel.

Both sides want to take over the loss-making general entertainment satellite channel and turn it into a pan-European news channel with some music programming.

Both Mr Branson and Ms Marialina Marcucci,daughter of the man behind Videomusic, the Tuscan businessman Mr Guelfo Narcucci are both prepared to renew talks.

At the moment Videomusic has an agreement to take over the 35 per cent of the Super Channel shares held by the ITV companies.

Independent Television News executives have not yet indicated any preference for the parties involved in the deal.

It is beleived Fiat, Olivetti and Benetton would be prepared to provide sponshorship money for a European news channel.

Aid call for EC communities dependant on motor industry

By John Griffiths

COMMUNITIES in the EC which rely on the motor industry should be granted special status to help offset job losses due to restructuring, according to a group of UK local authorities.

The plea comes in a study prepared for a group of 20 local authorities which also claims that more than 11,000 UK jobs are at risk from intended Rover Group plant closures.

The study accepts the need for restructuring within the European motor industry in pursuit of greater competitiveness. But it says "a programme of action" is needed to help affected communities adjust.

Carried out by The Research Partnership, based in Stoke-on-Trent, the study says the intended closure of Rover's Group's Cowley South works and Llanelli components plant will cost just under £68m in lost income and other taxes, supplementary benefit and other costs, including nearly £7m in redundancy payments.

The assessed risk to more than 11,000 jobs is on the basis of a calculation that every motor industry job generates four more among component makers, service and other sectors.

Rover Group has announced that 2,500 jobs are to go at Cowley South works, where Maestro and Montego models are built, and 900 at Llanelli, where body panels for the Mini and Metro are produced.

The study estimates that this will lead to 6,750 job losses in the Cowley/Oxford area and a further 1,575 at Llanelli.

It further estimates possible cutbacks of pressing activities at Rover's Swindon plant accounting for a further 3,000 direct and indirect job losses.

It warns that this still does not take account of potential job losses among West Midlands component makers in the event of cutbacks in Rover's production capacity.

Rover last night had yet to see the report. A spokesman stressed, however, that the closures were not due to take place until the early 1990s and that their effects was already being mitigated by natural wastage at a rate of 12 per cent a year.

The report is available from The Motor Industry Local Authority Network at Birmingham University.

BP Chemicals plans to spend £200m on ethylene expansion

By Peter Marsh

BP CHEMICALS, a subsidiary of the UK oil giant, plans to spend up to £200m in adding significantly to Britain's capacity to make ethylene, a vital feedstock in the chemicals industry.

Most of the new capacity, which would involve an increase of about 13 per cent in the UK's current ethylene production of 1.9m tonnes a year, would be channelled directly to feed other plants run by BP Chemicals. These plants make polyethylene, a widely used plastic.

The expansion would go ahead at an existing BP Chemicals plant at Grangemouth in Scotland and would roughly double ethylene production at this site, which currently makes about roughly 270,000 tonnes of the material a year.

BP Chemicals, which is Western Europe's second biggest maker of ethylene after Shell International Chemical, said it hoped to make a final decision next year on whether the new investment in Scotland would go ahead. That would allow the production to start in 1992.

BP Chemicals, one of Western Europe's biggest chemicals companies with annual sales of more than £2.5bn, is planning a large expansion in production of polyethylene.

Besides being used to make polyethylene, ethylene is a feedstock for a number of other plastics including polyvinyl chloride and polystyrene. Ethylene is also used as a raw material in thousands of other processes which turn out commodity and specialist chemicals used in a range of industries.

BP's investment plans, assuming they proceed, would add up to the largest single capital project in the UK chemicals industry for some years. The plans come after a year of upwardly spiralling demand for ethylene in virtually the whole of the developed world. This has resulted from surging demand for chemicals generally.

Due to a cut in plans for ethylene production plants in the early 1980s, many of the big ethylene suppliers have been unable to meet demand for the material, world use of which is running at about 50m tonnes a year.

As a consequence, ethylene prices have risen sharply in the past two years. In Europe, the cost per tonne of the material has increased from about £300 18 months ago to more than £330 today. In the US, the price rises have been even sharper. While several US ethylene suppliers have announced big new production projects in the past year, European manufacturers have been more cautious.

In the UK the three other ethylene producers besides BP Chemicals - Imperial Chemical Industries, Exxon and Shell International Chemical – have refrained from announcing large expansions in capacity, preferring small additions to existing plants.

If the extra ethylene production at Grangemouth proceeds, it will use natural gas from the North Sea as a raw material. This will be piped directly into the plant from coastal terminals.

The gas that BP Chemicals proposes to use in this way would mainly be a byproduct from oil fields run by companies such as BP, Shell, Mobil and Exxon.

British Coal wants private partners in new power network

By Maurice Samuelson

STATE-OWNED British Coal yesterday offered to co-operate with private industry in developing a chain of small power stations.

It could then compete with its biggest customers, the Central Electricity Generating Board.

Mr Malcolm Edwards, British Coal's commercial director, said there were opportunities for the UK to emulate the power policies followed in many parts of Europe and in the US.

He pointed out that in those areas a great number of small local power stations or combined heat and power stations served the customer.

The forthcoming privatisation of electricity created scope for up to 1,500 MegaWatts of new small coal-burning plants, to generate process steam for industry. The privatisation would also provide power for the National Grid which serves almost all of the UK.

"While the benefits of the upheaval in the electricity industry for everyone involved – customers and employees – are not entirely clear we can perceive already the great advantages of the loosening up of the bottom end of the electricity pyramid."

With typical plants costing £100m to £300m each, that pointed to a total UK investment in them of about £1.2bn.

He was speaking at a London conference on small private generation projects.

Commenting on the keen interest in natural gas or imported coal as the most efficient fuel for power generation, he claimed that the suppliers of these other fuels would not match the long-term contracts and stable prices guaranteed by British Coal now that its business was "under better control".

"British Gas might be 'proddable' into some period contract, but not for long, and then with 70 per cent escalation against oil prices.

"If long power station contracts like that had been in operation during the past 20 years, every one of the power stations would have gone spectacularly broke."

Small scale independent generators, therefore, "should stop fussing around with gas which by definition is the most difficult fuel to nail down in every way."

For its part, British Coal was prepared in principle to contract forward for the whole period of debt redemption of a new power station.

And it would ensure that prices did not move out of line with inflation.

"Depending on the starting price and the obligations imposed upon the distributors it might be possible to set that limit at slightly below the retail price index.

"I do not believe that any other fuel supplier is prepared to offer contracts of this nature to generators."

Airship flies by light

By Lynton McLain

LIGHT has been used for the first time for the total control of an aircraft, with the successful flight of an Airship Industries' Skyship 600 airship in the US.

Fly-by-light technology is the most advanced form of aircraft control and is likely to be used increasingly on aircraft into the 1990s. Light signals are sent down optical fibres inside the aircraft instead of using traditional electrical wires and control cables.

The light control equipment in the airship was developed by GEC Avionics and "transformed the controllability of the airship", Mr Roger Munk, the chief designer and technical director of Airship Industries said.

The fly-by-light control technique will be used by Airship Industries and Westinghouse on their joint venture 400 feet long airborne early warning radar airship for the US Navy, which is currently being built for $168.9m.

JOBS

Ominous signs in the market for executives

By Michael Dixon

READERS will doubtless have heard of the young lady named Bright whose speed was far faster than light. So you will be aware that she set out one day in a relative way, and returned home the previous night. But have you ever wondered what she did after age slowed her down?

While nobody knows for sure, she might well have become one of the growing numbers of journalists specialising in anticipatory nostalgia. It consists of selecting a famous event that occurred some years in the past, and then reminiscing about it well ahead of the actual anniversary.

Recent examples include Black Monday of October 19 last year and, in Britain particularly, the hurricane of the previous Thursday night - both of which were recalled at length in journals a week or so in advance of the dates when they occurred. What is more, the quarter-centenary of President Kennedy's death has already been heavily commemorated although, 25 years ago, he still had almost a month of life left.

Even so, my memories of those three events are hazy compared with my vivid recall of what transpired the day after Black Monday. For at 5pm London time on Tuesday, October 20 1987, it was discovered that a large chunk of the Jobs column had vanished into thin air.

The news was telephoned to me at Arthur Andersen's head office in Chicago. I had written the column before flying out, but the last third of it had perished in the electrical breakdown caused by the hurricane. Although my whole life flashed before me as I sat cudgelling my brains by the phone, there was nothing I could do. By then the column was already overdue to be passed to the printers for publication in the next morning's FT. My colleagues just had to fill up the gap as best they could.

What recalls that agony to mind is the table alongside, the 1987 version of which was the topic of the column that went with the wind. The table indicates the demand for executive-type staff in the United Kingdom over the 12 months to September 30 in each of the past five years. The figures come from the counts of jobs advertised in UK national journals, which MSL International has made every quarter since 1959.

As may be seen from the overall results in the lower part of the table, the general demand has continued the increase which began with last year. Even so, the July-September quarter just ended has brought signs that the growth may be faltering.

One is that, although the year's third quarter almost always sees fewer offers than either of the previous two, the drop in 1988 has been unusually sharp. Another omen appears higher in the table, among the 12-month figures for eight different categories of executive work.

While production people have never been more sought after, demand for marketing and sales staff is weak. Indeed, the number of jobs advertised for them in the latest quarter was the lowest for any July-September since bleak 1981. And during MSL's 29 years of counting, the call for marketing and sales staff has more often than not been a lead indicator of trends in executive demand overall.

UNITED KINGDOM ADVERTISED DEMAND FOR MANAGERS AND KEY SPECIALISTS
(12 months to September 30)

Type of work	1987-88 Posts advertised	1987-88 Change from 86-87 %	1986-87 Posts advertised	1986-87 Change from 85-86 %	1985-86 Posts advertised	1985-86 Change from 84-85 %	1984-85 Posts advertised	1984-85 Change from 83-84 %	1983-84 Posts advertised	1983-84 Change from 82-83 %
R & D	3,935	+25.6	3,133	−26.5	4,263	−40.2	7,129	− 5.4	7,538	+12.5
Marketing	6,204	− 0.2	6,215	− 2.4	6,068	− 7.6	6,566	− 5.3	6,932	+10.8
Production	7,636	+54.9	4,931	− 4.3	5,152	−29.1	7,267	+ 7.4	6,767	+23.6
Accounting	7,925	+ 8.1	7,334	+15.2	6,368	− 1.9	6,492	+ 9.6	5,923	+16.6
Computing	4,602	+37.0	3,358	− 9.8	3,724	−13.5	4,304	+ 8.7	3,958	+45.8
General manag't	1,728	+16.8	1,479	+15.8	1,277	− 2.4	1,308	− 0.4	1,313	+ 3.3
Personnel	1,065	same	1,065	+18.3	900	− 6.5	963	− 8.9	1,057	+23.6
Others	7,307	+14.7	6,372	+16.2	5,484	−14.4	6,407	+16.4	5,503	+51.1
Total	40,402	+19.2	33,887	+ 2.0	33,236	−17.8	40,436	+ 3.7	38,991	+21.9
Oct.-Dec.	9,248	+17.8	7,850	− 8.7	8,596	− 3.3	8,883	+ 3.9	8,550	+32.3
Jan-March	11,223	+22.4	9,166	+ 4.1	8,804	−24.3	11,624	+ 9.3	10,637	+18.9
April-June	10,593	+23.2	8,597	+ 5.2	8,172	−21.5	10,412	+ 3.8	10,034	+20.3
July-Sept	9,338	+12.9	8,274	+ 8.0	7,664	−19.4	9,507	− 2.6	9,760	+20.7

Mixed pair

TWO posts are offered by recruiter Graham Walker of Anthony Nevile International on behalf of clients he may not name. So he promises to abide by applicants' requests not to be identified to the employer at this stage of the proceedings. The same goes for the other headhunter who will be mentioned later on.

The first job, in south Yorkshire, is for the financial controller and company secretary of a moulded-components business lately acquired by a £300m-turnover UK group. The newcomer will be responsible to a joint managing director for all financial and administrative management. A prime task is the updating of management accounting systems.

Candidates should be appropriately qualified with success in comparable work including not only computer applications but also large business start-ups, preferably within a large group.

Salary £30,000-plus with car among perks. Board seat in the offing.

Mr Walker also seeks a technical director designate for a UK-based international group's Scottish subsidiary making non-woven fabrics by the power-bonding process.

Besides experience of product-development in a like field, candidates should have knowledge of marketing and manufacturing needs.

Pay indicator £25,000 with car among other benefits.

Inquiries to 69 Midton Rd, Ayr, Scotland KA7 2TW; tel 0292 287969, fax 0252 733120.

Finance head

ANOTHER chief of finance and administration is sought by David Mason-Johns of Professional Search and Training. The employer is a London software house with expanding sales abroad.

Applicants should be computer-friendly qualified accountants, with experience of multi-currency work in a service business with an informal working style.

Salary around £30,000. Perks include car.

Inquiries to Syon Lodge, London Rd, London TW7 5BH; tel 01-560 7700.

Chief Internal Auditor

Bahrain

to US$75,000 tax free + expatriate benefits

Our client forms part of a leading international banking group whose head office is situated in Bahrain.

Reporting directly to the General Manager, you will carry out high-level inspections in both the head office and subsidiary companies. You will also establish sound departmental procedures, audit the computer systems and play a key role in the bank's growth into new areas of business.

Probably in your late twenties or thirties, you will preferably be a graduate ACA with an energetic yet flexible approach.

You will already be working either within the audit function of an international bank, or in a professional firm as an auditor or management consultant with banking clients.

The excellent remuneration package will include relocation expenses, private health insurance, housing allowance, school fees (if necessary) and other expatriate benefits.

Please reply to Christopher Evans, Consultant to the Bank, in strict confidence with details of age, career and salary progression, education and qualifications, quoting reference 5163/FT1 on both envelope and letter.

Deloitte Haskins+Sells

Management Consultancy Division

P.O. Box 198, Hillgate House, 26 Old Bailey, London EC4M 7PL.

Founded 150 years ago, Legal & General has grown to become one of the foremost names in life and pensions, investment management, general insurance and financial services, with operations in Europe, North America and Australia.

FUNDING MANAGER

Salary c£25,000 plus financial sector benefits and car

City

Integral to the maintenance of this foremost position is the management of the Group's capital.

We need the best financial talent to do this. The position of Funding Manager has been created within our Group Treasury Department, to manage the most cost effective sources of financing for the Group. With day-to-day responsibility for the Group's foreign exchange and interest rate exposure you will also be required to arrange short-term funding, including related foreign exchange transactions and hedging activity and to establish appropriate accounting/management reporting systems.

This will involve you in regular senior level contact with the City and the monitoring of banking relationships to achieve the best service available.

With a background in a financial institution or the corporate treasury function of a large corporation, you should have at least two years' experience in the money markets, a degree and/or an accountancy qualification or MBA.

This senior post reports directly to the Group Treasurer. The salary is negotiable and the full financial sector benefits include a car.

To apply, please send a full CV to:
**P.J. O'Sullivan,
Personnel Manager (Group),
Legal & General Group plc,
Temple Court,
11 Queen
Victoria Street,
London
EC4N 4TP.**

Legal & General

an equal opportunities employer

A · FUND · OF · TALENT · TO · ADD · TO · OUR · RESOURCES

BANKING OPPORTUNITIES IN THE MIDDLE EAST

Salaries $45,000 to $140,000 tax free plus comprehensive expatriate benefits

As a leading firm of international search and selection consultants, we have built up considerable expertise in recruiting well qualified individuals for the banking and finance industry both in the UK and overseas.

A highly successful marketing visit to the Middle East just completed has resulted in the following assignments, amongst many others, for clients based in:

• ISTANBUL • OMAN • BAHRAIN • KUWAIT • QATAR • SAUDI ARABIA • UAE •

Head of Audit	c $80,000	Treasury Manager(s)	to $140,000
Credit/Marketing Officer(s)	various	Training Advisor(s)	$ neg
Head of Project/Trade Finance	$ neg	Portfolio/Investment Manager(s)	various
Financial Controller(s)	$ neg	Head of Credit/Marketing	$ neg
A.G.M. Operations	to $120,000	Chief Dealer(s)	to $125,000
Investment Banking Head	$ neg	Deputy General Manager	$90,000
Computer Inspector	$65,000	Financial Accountant	$60,000
Senior FX Trader	$100,000	FX/MM Dealer(s)	to $65,000
Head of Credit (2)	to $90,000	Auditor(s)	to $60,000
Correspondent Banking Manager	to $80,000	Company Secretary/Legal Advisor	$ neg

If you are interested in any of these positions or would like a general discussion about other career opportunities either in the region or elsewhere, please send your curriculum vitae in confidence to
Walter Brown, Executive Director, or Roy Webb, Managing Director.

INTERNATIONAL SEARCH AND SELECTION CONSULTANTS

7 Birchin Lane
London
EC3V 9BY

Tel: 01 895 8050(12 lines)
or: 01 626 2150(24 hour)
Fax: 01 626 2092

Devonshire Executive Ltd

A member of the Devonshire Group Plc

COLIPA

THE EUROPEAN FEDERATION OF THE PERFUMERY, COSMETICS AND TOILETRIES INDUSTRY IS LOOKING FOR A

SECRETARY GENERAL

to be based at its headquarters in Brussels

Candidates should have:

- a University education followed by several years' experience in Industry or in an International Organization.
- oral and written fluency in at least two major Common market languages.
- a talent for diplomacy and communication, both written and oral.

Candidates should send a full curriculum vitate and a handwritten covering letter supporting their application to Mr. R. Merce, President of COLIPA, 223 rue de la Loi (bte 2), 1040 Brussels (Belgium), before November 20, 1988.

PRIVATE CLIENT STOCKBROKING

Our client is a well known Private client broker. The firm can accommodate additional associates to be based at its City offices. Operating and remuneration terms are negotiable depending upon client base, and there are sufficient facilities to accommodate teams. If you would like to discuss matters further, please telephone Terry Fuller, Spicers Executive Selection, 13 Bruton Street, London W1X 7AH. Tel: 480 7766.

ASSISTANT SECRETARY IN COMMERCIAL AFFAIRS

The FINANCE HOUSES ASSOCIATION and the EQUIPMENT LEASING ASSOCIATION are pre-eminent in representing the interests of the instalment credit and leasing industries. Through the Joint Secretariat, they maintain close contacts with Government Departments, other official bodies, the media and the public on asset financing and consumer credit matters.

They seek an Assistant Secretary, reporting to the Director, to cover commercial issues including credit assessment, lease administration and the complication and dissemination of statistics.

As part of a small but lively team, the successful candidate will advise the Director and act as Secretary to the relevant member committees, formulating policy papers, attending to their administration and implementing their decisions.

A starting salary of about £19,500 plus benefits is offered to the candidate of graduate calibre who has previous experience in the credit card, instalment credit, credit referencing or leasing sectors, other trade associations or within the civil services. Some background in statistics or consumer credit law would be an advantage.

Application letters stating present salary with full CV should be sent marked "PRIVATE" by Thursday 11th November 1988 to:

Neil Grant CBE, Director
Finance Houses Association
18 Upper Grosvenor Street
London W1X 9PB

ORGA

LEADING ENGINEERING COMPANY
requires for its Rome office

EXPERT ON INVESTIGATIONS AND PROJECT DESIGN WITH REFERENCE TO ACOUSTIC AND ATMOSPHERIC POLLUTION PROBLEMS

REQUISITES: Degree in Chemistry or Physics; at least three years experience in the field specified; age 30 or below; excellent cultural background, high degree of managerial ability and aptitude for interpersonal relations; willingness to travel on business trips and assignments in Italy and abroad, excellent knowledge of Italian.

Please send detailed curriculum vitae indicating telephone number and clearly quoting the reference no. 4858FT addressed to:

Divisione Selezione del Personale dell'ORGA S.r.l.
00165 ROMA / Italy - Via Gregorio VII, 466 - Tel. 01039/6/62.21.044

QUALIFIED BANKING MANAGEMENT ACCOUNTANT

Neg £24-£27,000 pa + benefits

Due to expansion, this international security company's London wholesale banking subsidiary seeks to fill the above vacancy.

Candidates must be qualified (ACCA, ACMA, ACIS etc) and have several years bank accounting experience particularly treasury operations, budgets, forecasts, profit analysis, capital allocations and reports etc. via a P/C based modelling package (DBASE, Lotus etc). The ability to problem solve, to communicate to senior staff and to achieve agreed targets is essential.

Key objectives will be to implement and maintain an accounting system for management to monitor the performance of the bank's products, organisational units and markets and to deputize for the Chief Accountant.

Contact: Brian Gooch.

FOREIGN EXCHANGE DEALERS

Experienced dealers are currently being sought for London and Tokyo by an international bank and a banking subsidiary.

We would be interested to hear from:

Foreign Exchange dealers with Far East expertise (aptitude with local languages a distinct advantage) to work in Tokyo

Salary: $100,000 pa

Foreign Exchange dealers with an active market making background to deal on all major currencies

and

French Franc and Australian dollar specialists to work in London.

Salary $Neg.

UK & EUROPEAN EQUITIES SALES

£40,000-£60,000

A prime name institution in the international securities trading is actively seeking graduates with a minimum of 3 years in a high profile sales team covering warrants, bond and equities sales.

OLD BROAD STREET BUREAU LTD
STAFF CONSULTANTS
109 Old Broad Street, London EC2N 1AP. Tel: 01-588 3991

Banking Managers

The Merchant Banking Approach **£25,000-40,000**

This prestigious and long-established British bank offers a wide range of quality services to an extensive and diverse client base including many blue-chip names. The UK Corporate Banking Department has established a reputation for providing innovative funding, including leveraged finance for acquisitions and buy-outs, as well as asset-based finance, to the corporate sector. The Department has strong relationships which it uses to concentrate on "value- added" and structured transactions. Liaison with the Bank's corporate finance and development capital teams is important, as is involvement with the syndication process.

The Department is undergoing a significant growth in its business and consequently seeks to recruit high calibre professionals to manage transactions and handle relationships. The Bank is keen to meet merchant or corporate bankers with at least 4-6 years' client management experience as well as considerable evidence of successfully completed bespoke transactions. Candidates should be self-motivated with sound banking training and a flexible and imaginative approach to banking.

The Bank expects Managers in this Department to take early responsibility for running all parts of a transaction. In return, the right candidate will be rewarded with a generous salary package and excellent prospects within this highly regarded team.

For further details please contact the retained consultant Mark Hartshorne on 01-404 5751 or write to Michael Page City,
39-41 Parker Street,
London WC2B 5LH.

Michael Page City

International Recruitment Consultants
London Paris Amsterdam Brussels Sydney

CORPORATE ANALYSTS

Experienced analysts, preferably ACA, MBA or with a relevant degree, to cover UK corporates.

BANK ANALYSTS

Analysts with fluency in one or mor European languages, preferably Italian and/or German, are sought

IBCA is the leading European rating agency, providing credit reports to major financial institutions worldwide. As a result of expansion we are seeking additional analysts. The positions involve travel, contact with senior officers of banks or corporations, the preparation of high quality credit reports and advising clients on the credit status of rated entities.

Suitable candidates will:

- be graduates
- be able to communicate well, both orally and in writing
- have experience of financial analysis

Salaries will be competitive and commensurate with qualifications and experience. Write in confidence with full C.V. to the Managing Director,

IBCA

Eldon House, 2 Eldon Street, London EC2P 2AY

Svenska&Company Ltd

STOCKBROKERS

Since it commenced trading in 1987, Svenska & Company Ltd, which is a UK stockbroking firm, has specialised in the private client area and is continuing to expand its operations in this field. The company is interested in talking to Stock Exchange members with traditional, quality UK or foreign business.

Please contact John Clarke on
01-377 6066
at
Svenska & Company Ltd
14 Devonshire Row, London EC2M 4RH

Member of the International Stock Exchange/Authorised by The Securities Association

Member of the Svenska Handelsbanken group

TOP EXECUTIVE JOBS

Senior Exe... ...ointments

...professionals who ...
...ok how our executive clients ...
...vertised vacancies by contacting us ...
meeting without cost.

...32 Savile Row, London W1X 1AG 01-734 387...
...2 Suffolk Street, Birm... B1 1LS 021-643 2...

Connaught · Mainland

HERIOT-WATT UNIVERSITY
DEPARTMENT OF
ACCOUNTANCY & FINANCE

CHAIR OF FINANCIAL & BANKING STUDIES

Applications are invited from suitably qualified candidates for appointment to the Chair of Financial and Banking studies. The new Professor will be expected to take up the appointment as soon as possible after 1 January 1989.

The successful candidate will provide vigorous academic leadership in one or more of the following areas: portfolio investment, financial markets, financial institutions, marketing of financial services and banking. Practical experience in, or evidence of close collaboration with, the financial services industry would be useful.

Further particulars and application forms are available from the Staff Officer, Heriot-Watt University, Riccarton, Edinburgh EH14 4AS to whom applications should be sent by November 28th.

ORD MINNETT

A Member of The International Stock Exchange and The Australian Stock Exchange

Ord Minnett, one of Australia's consistently top ranked investment banks and a member of the Westpac Banking Group, is seeking an experienced professional for the following senior position in its London office:

MINING ANALYST

The applicant must have a thorough knowledge of not only the Australian mining industry but also that of North America to complement our international research in this sector of the market.

This is a senior position and offers the right candidate an outstanding career opportunity with excellent prospects for promotion.

An attractive remuneration package is offered.

*Please send your CV and supporting details to:
J.P. Gunning, Esq., Ord Minnett Limited,
1 College Hill, London EC4R 2RA.*

Fund Management

Southern England Attractive Salary + Benefits

Projected growth in funds under management has created an opening within this leading investment management group for experienced individuals to join their team in the South of England.

UK Equities Research

Reporting to the Head of Research this is a Senior Analyst position requiring a minimum of 3 years' relevant experience. Candidates will have an excellent grasp of the UK market as well as, ideally, specific knowledge of the Capital Goods and/or Financials sectors.

This position offers an outstanding opportunity to join an expanding international fund management group at a crucial stage of their development.

Please contact **Charles Ritchie** on 01-831 2000 (evenings and weekends 01-675 0670) or write to him at **Michael Page City, 39-41 Parker Street, London WC2B 5LH.**

Michael Page City
International Recruitment Consultants
London Paris Amsterdam Brussels Sydney

MARKETING RESEARCH AND CONSULTANCY

Director - Financial Services

c. £40,000 package
City

This leading marketing research company has built an enviable reputation in the specialist area of financial and professional services. They are currently expanding the consultancy services which they offer clients and are looking for a financial services professional to spearhead this development.

The role will be to direct and promote the marketing, selling and presentation of research to cover a broad spectrum of City and financial service markets.

This is a superb opportunity in research-based consultancy for someone with a marketing track record in the financial sector or a senior financial marketing research executive.

In either case, a thorough understanding of financial service markets is required, together with first-class analytical and presentation skills and the ability to develop and market consultancy and research programmes.

The package will comprise a competitive base salary, performance related bonus and company car.

As independent advisers to our client, we will fully respect the confidentiality of those wishing to discuss this position in more detail. Please either telephone Christopher Bainton on 01-378 7200 or alternatively send a CV to him, quoting reference MCS/2025 at:
Executive Selection Division
Price Waterhouse
Management Consultants
No. 1 London Bridge
London SE1 9QL

Price Waterhouse

TREVOR JAMES CITY

FRENCH EQUITY MARKET MAKING £ VERY SUBSTANTIAL
A Top Name requires an individual with at least a year's experience of making markets in Equities or derivatives. He/She must be analytical, able to devise trading strategies and speak fluent French. This position carries a high basic salary and substantial profit sharing.

EQUITY SALES TO EUROPE £NEGOTIABLE
A Leading Name in European Equities is looking to increase its team selling equities to Europe with an immediate requirement on Italy. Experience of European Institutional Sales is required, but not necessarily in the equities field. Individuals with similar experience in the Bond market would be considered.

EUROPEAN EQUITIES SALES/RESEARCH £NEGOTIABLE
We continue to seek experienced Equity Salesmen and Analysts covering various European countries, particularly Italy, Germany and Scandinavia.

F/X DEALERS TO £45,000
We are currently recruiting for a number of First Division Banks and are seeking young Dealers with solid experience from active dealing rooms in the following areas: Cross Currencies, Cable, Spot $/DMK and FWD Yen.

GERMAN SPEAKING BOND SALES £30,000
Leading International Bank requires a fluent German Speaking Salesman with around 1 year's experience. The position entails initially working in Germany for two years before returning to London. An excellent career opportunity to take on and develop a substantial client base.

GILT SALES £30,000
Being one of the world's leading Securities Houses, this Japanese Institution is seeking a young (mid 20's) Salesman with 1-2 years experience to augment its institutional sales team.

JUNIOR SWAPS £25,000
This N. American Bank, a prominent player of the Swaps market is looking to add an additional member to its team. Candidates should preferably have mathematically related degrees, be in their early 20's and have around 1 year's experience.

TRAINEE EUROPEAN CORPORATE FINANCE c£20,000
A first class Stockbroker is looking for a Trainee for their growing European Corporate Finance Dept. The right individual will be highly numerate, fluent in at least one European Language and show an "international" personality.

Telephone: 01-920 9512
TREVOR JAMES CITY
62-64 Moorgate, London EC2R 6EL
RECRUITMENT CONSULTANTS
A member of the Blue Arrow Group

FINANCIAL OPPORTUNITIES

CONVERTIBLE SALES £NEG
Convertible Bond Sales people required with a minimum of 2 years experience. Fluent German or good client base an added advantage. For further details please call Julie Shelley.

FOREIGN EXCHANGE SALES
American House requires a sales person with a minimum of 3 years experience. Excellent package offered to the right person. For further details please call Julie Shelley.

FOREIGN EXCHANGE TRADER £NEG
European House seeks a cable spot trader to join their friendly team, minimum of 3 years experience required. For further details please call Julie Shelley.

MARKET MAKER
Good experience in market making in European Equities. Emphasis on german, Dutch and French Equities. Please call Richard Ward.

U.S TREASURY SALES
Good experience required in selling U.S Treasuries. Quality House. Please call Richard Ward.

JAPANESE EQUITY SALES
2 to 3 years experience selling Japanese Equities into the UK market. Very good opportunity. Please call Richard Ward.

MANAGER
Eurobonds. Would suit an experienced Sales/Trader, preferably mid 30's and a graduate. Excellent opportunity to lead small professional team. ref DF/113

SALES
German National or fluent German with Eurobond sales experience to cover Germany. Graduate preferred. Major International House offers top package. ref DF/215

SALES
U.S. Equities 5 years plus International Sales experience with good UK/European client contacts. Excellent package offered by top UK House. ref DF/212

SALES
Gilts. 3 years experience with Quality House, graduate preferred. Languages preferred, not essential. Top Investment House offers excellent package for top people. Ref DF/819

For details of the above please call TEL: 01-377 6488 FAX: 377 0887
Cambridge Appointments
232 Shoreditch High Street, London E1 7HP

01-377 6488

Marketing Corporate Pensions

£45-£50k + Bonus ++

Our client is the well-known subsidiary of one of the UK's largest composite insurance companies and provides a managed pension fund service to corporate customers. Funds under management total £1.7 bn. Although very well established, the company is committed to further growth and has therefore decided to appoint a Marketing Manager/ Director Designate to provide specific and dedicated marketing expertise. This is a new appointment, and the first tasks will be to define the scope of the job, then spearhead the marketing and development drive. Candidates, probably in their mid 30s to 40s will have a strong background in business development ideally gained in an insurance, fund management, stockbroking or banking environment. A degree or professional qualification would be helpful, whilst knowledge of the group pensions market would be a distinct advantage. This position will appeal to someone with director potential who can respond to the challenge of building a new marketing function within a well respected company poised for expansion. Candidates should apply in strictest confidence to Peg Eva, as adviser to the company, at Selection Thomson Ltd, 115 Mount Street, London W1Y 5HD or 14 Sandyford Place, Glasgow G3 7NB.

Selection Thomson
London and Glasgow

SENIOR APPOINTMENTS

Head of European Bond Sales Age 35-45 c£90,000 pa basic salary
Well-known international bank seeks exceptional person to head up sales team of 5. A minimum of 5 years' fixed interest bond sales experience is sought, plus highly developed managerial skills. Products sold include dollar straights, euroyen, US treasury and JGBs.

Chief Foreign Exchange Spot Dealer Max Age 40 Salary to £80,000 pa basic
Widely-known international bank seeks highly experienced dealer with good management skills, able to control team of 8. Initially concentrating on dealing in dollar yen, dollar sterling and dollar DM, the person chosen will take increasing control of the dealing room as it expands. the same bank also seeks a senior dealer for the team for the above currencies.

Senior Manager Property/Project Finance Age 35 Salary £35,000 pa plus realistic bonus scheme
Highly regarded international bank seeks property finance specialist from a bank to add an existing and successful project finance team. Candidate should be of graduate status and will have been involved at some stage with other aspects of asset based project finance. Property financing undertaken by the bank ranges from small residential developments to large office complexes.

UK Bond Sales Age 20s c£30,000 pa
International bank, well-respected and successful, known as an aggressive force in the market, seeks graduate with minimum if 2 years' UK bond sales experience selling fixed interest products to UK institutions.

Please speak with Elizabeth Hayford on 01 247 0271 or write to her at:-

LJC BANKING APPOINTMENTS
Devonshire House, 146 Bishopsgate, EC2M 4JX.
01-247 0271

ONE OF THE FASTEST GROWING SECURITIES COMPANIES IN JAPAN REQUIRES

Euro Warrant Traders
Japanese Securities Sales

Challenging positions offered to qualified persons with at least two years experience. Your enthusiasm and performance will be well rewarded.

Please send CV to: Mr Eigo Kudo, President and Managing Director, Meiko Europe Limited, 5th Floor, 2 Honey Lane, (off 107 Cheapside), London EC2V 8BT. Telephone: 01-600 0290

Meiko Europe Ltd is a subsidiary of Meiko Securities Co Ltd, a member company of Sumitomo group in Japan.

LAWYERS, ACCOUNTANTS AND MBA'S

The chance to embark on a career in Corporate Finance with a leading UK Merchant Bank

These positions will appeal to Lawyers and ACA's who may have worked within a specialist Corporate Finance department and now wish to make the transition from practice into the financial services sector; the proposition could also be of interest to recently qualified MBA's who are keen to pursue a career in Corporate Finance.

As a member of a highly motivated team, you will enjoy access to a range of quality work encompassing flotations, new issues, mergers and acquisitions and LBO's/ MBO's. The Bank has a growing client list of blue chip companies and expanding entrepreneurial businesses and you will be required to make an immediate contribution to the success of the department. In return you can expect greater responsibility and accelerated career progression in a meritocratic working environment.

Applicants should be aged 25-30, and must be able to demonstrate a sound grasp of the principles of Corporate Finance. Academic excellence, commercial acumen and first class communication skills are essential attributes. The compensation package reflects the importance attached to these key positions. To apply, please write in confidence to **Tim Knight at John Sears and Associates, 2 Queen Anne's Gate Buildings, Dartmouth Street, London SW1H 9BP** or telephone **01-222 7733** for a preliminary discussion.

John Sears and Associates
A MEMBER OF THE SMCL GROUP

TRAFALGAR CORPORATION LIMITED
EXECUTIVE RECRUITMENT SERVICES

On behalf of a number of first ranked city institutions we invite applications by senior executives particularly in the following disciplines:-

Fund Manager	Gross funds, major pensions
Analysts	Insurance Electronics Retail stores Capital mkts German European equities
Sales	U.S. Treasury Eurobonds German speaking Pacific Basin Equities to U.K. Institutions Multi Currency based N.Y.

Please telephone 01-353-2575/4212 in complete confidence.

US JOBS VENTURE AMERICA

CV or sae, 128 Balfron Twr, 3 Hamelin St, LON E140QT

FINANCIAL DIRECTOR DESIGNATE
LLOYD'S MANAGING AGENCY

CITY c£35k + Bens + Car

Our client is a highly successful, rapidly expanding Managing Agency. They need an energetic and ambitious Chartered Accountant to take full responsibility for the company's accounting and finance function.

This is a KEY POSITION FOR THE FUTURE DEVELOPMENT OF THE BUSINESS. The role will entail a "hands-on" approach to all aspects of the company's accounting transactions including the preparation of management and statutory accounts, budgeting, forecasting and the financial review of new projects and expansion plans.

Applicants should be computer literate and aged between 30 and 35 with extensive accounting experience in the Lloyd's environment.

For more details, please write with extensive CV, quoting Ref. PGC, FTI to Paula Manning.
LITTLEJOHN FRAZER, 2 CANARY WHARF, LONDON E14 9SY

MONEY MARKETS MANAGER

The London Treasury operation of a major International Bank, is seeking to appoint a world class professional as Head of its Money Markets Desk.

The successful candidate should have extensive experience of the International Money Markets, the Foreign Exchange Markets and off balance sheet products.

Proven track record with a major financial institution, good academic background and possible understanding of the Middle East are highly desirable.

The position will be reporting to the Branch Treasurer and will include a very competitive renumeration package.

Write Box A1033, Financial Times, 10 Cannon Street, London EC4P 4BY

Investment Assistant

If you're looking forward to an investment career

Alder Investment Management Limited has created a new position in its Private Client section for an Investment Assistant, providing an ideal opportunity for a well-mannered, responsible young person of sound education, probably with 2 'A' levels. You will be encouraged to study for an appropriate professional qualification while, working as part of a small team, you will experience all aspects of investment management.

A year spent in an investment related background will have given you an appreciation of the principles involved, together with the self-assurance and discretion demanded by the nature of our business. Accuracy and an eye for detail are also essential, and familiarity with computing systems would be an advantage.

In return we offer a competitive salary and excellent prospects for personal development.

Please send your CV and a note of your investment ambitions to Mrs. C. A. Siggs, Personnel Manager, Alder Investment Management Limited, 14 West Smithfield, London EC1A 9HY.

Alder Investment Management Limited

INTERNATIONAL PORTFOLIO MANAGER

Our clients, the London subsidiary of a well established Geneva-based Bank which manages institutional and private funds in excess of $2 billion, are part of a substantial and profitable Banking Group in the City of London.

To increase their fund management capabilities, they are seeking a portfolio manager with at least two years' experience. A graduate and a French speaker is preferred. This job will appeal to someone who is keen to manage equity and fixed interest money on an international basis. Some travel will feature in this appointment.

The job demands all round knowledge of the securities business. An essential requirement is that the person appointed fits into a small team and consequently will participate in the growth of a professional organisation.

This position offers a competitive salary package, including the usual banking benefits, together with excellent career development opportunities within the Group.

Applicants are invited to telephone Geoff Ritchie – Personnel Adviser to discuss this appointment, alternatively write in confidence enclosing full career details to:

G T Ritchie
Styra Partnership Ltd
36-38 Fenchurch Street
London EC3
01-929 5252

TECHNOLOGY

Paul Abrahams explains why company briefings are turning into high quality audio-visual events

Every graphic tells the company's story

"The days of giving a presentation to the boss on the back of a cigarette packet are over," says Mark Hardaker, of Crosfield Electronics, a UK maker of imaging equipment. He is describing the recent transformation in the way companies present figures – internally and externally.

"Senior managers and customers now expect high quality briefings. That means high quality graphics produced on computers."

The audio visual presentation products market is expanding rapidly in both Europe and the US. In the US alone there are 23m business presentations each day.

The number of such briefings is expected to increase and so are sales of the delivery systems needed to give them. *Desktop Presentations Inc, the* California-based market research company, believes that 100m acetate sheets, used for overhead projection, and 350m transparencies will be sold world-wide this year. By 1990, the company estimates the market for slides could be as great as 1bn a year.

The four main delivery systems for business presentations are video, computer screens, overhead projectors and 35mm slides.

Although all can use material supplied by computer, *it* is, ironically, the oldest format, the 35mm slide, which appears to have benefited most from the increased power of personal computers *(PCs)* and their falling cost.

Hardaker, a European marketing manager for *Crosfield,* states that in the UK overall use of slides is growing by between 6 and 8 per cent a year. This is all the more remarkable, he argues, because home use of positive transparencies is declining rapidly. Much of the growth can be put down to the increasing popularity of computer-generated slides. Their use is expanding at between 15 and 25 per cent per annum.

Sol Sherr, president of Westland Electronics, the New *York-based analysts, says an* important reason for the new-found popularity of slides has been the fall in the cost of producing them.

Previously, they had to be made by a trained operator who would laboriously set up many shots using a rostrum camera. Now it is possible to use digital technology on PCs to create high quality images for presentations. The sequence is:

- The computer operator prepares the data on a standard spreadsheet, such as Lotus 1-2-3, and they are stored digitally on disk in the PC.
- A graphics package is then used to translate the data into *graphs. Details can be adjusted* on screen to highlight particular trends.
- *The image data is rapidly* turned into pixel information by rastered image processing. This information, which defines each spot on the screen, can either be sent by modem to a bureau which specialises in 35mm slide and overhead transparency production or to an in-house facility.
- A film recorder then interprets the *digital information* and exposes the 35mm film with either a high resolution cathode ray tube or with a very fine pencil of light. Resolution can be in excess of 1,000 lines an inch, which gives an impression of a smooth image. Draft pictures can also be created on paper by colour printers to cut wastage.

"Computers have forced down the total cost of manufacturing slides from about $150 (£85) to about $10 per item," says Sherr. "If the company buys a system *for itself,* the cost can fall to as little as $2 for a high quality slide."

Freddie Whitelaw, marketing director of Image Innovation, a *UK manufacturer of high reso*lution computer graphics systems, says the falling cost of the hardware needed to manufacture 35mm positives *has also assisted sales.*

"If a corporation is making as few as 2,000 slides a year, it becomes worth thinking about *investing in a system which* can be added on to an existing PC," he says. "Although the larger systems can set a company back as much as £55,000, *at the low end of the market* the software needed to run on an existing PC can cost as little as £300."

Whitelaw explains that such systems are relatively cheap to run because so little training is needed. He says the increasing power of PCs means that inter*faces are much better than* they were. A trainee can now produce reasonable output after a couple of days. The training needed to use a rostrum camera used to take a couple of years.

Tony Oxley, an audio visual planning consultant, says that as the information technology revolution takes hold and the data available becomes more complex, so the need to visualise information becomes more pressing.

This growing need is reflected in the figures for world-wide sales of software packages for business graphics: 43,000 were sold in 1986 and it is estimated that annual sales will rise to 100,000 by 1989. In the UK, companies as diverse as British Telecom, Cadbury Schweppes, British Petroleum, Glaxo and the Southern Water Authority have purchased such systems.

Chris Corbin, special projects manager at the information systems division of Southern Water, says: "As we move from being a private company to a public one, so we need to improve the image of *the company. High resolution* graphics packages are one of the best ways of doing that. They also help our managers make decisions more quickly and effectively."

Other advantages of in-house systems cited by companies include flexibility in handling priority items and the added security derived from not sending information outside.

However, a number admitted having difficulties deciding where funds should come from for the project – the capital or current expenditure budgets.

Smaller companies which are unwilling to invest in rela*tively expensive output* devices are, nevertheless, making use of the new technology.

Bureaux services, which can receive data on disk or via modem and turn them into slides and overhead transparencies, are expanding rapidly in the UK. There are already 10 such operations and the number is likely to be 14 by the end of the year. The Clicks bureau in London, which mainly caters for the financial services market, makes 250,000 slides each year.

The major manufacturers of the necessary computer hardware include Crosfield, a subsidiary of De La Rue, Genigraphics, the US imaging *company, and Dalim Computer* Graphic Systems, of West Germany. Apple Computers is expected to target the market soon. Outputting devices are *also manufactured by Hone*ywell Bull.

However, slides are not the only format to have benefited from the expansion of the audiovisual industry. Overhead projectors have also profited from the increasing power of PCs. *Most software* is capable of outputting 8in by 10in transparencies as well as 35mm slides.

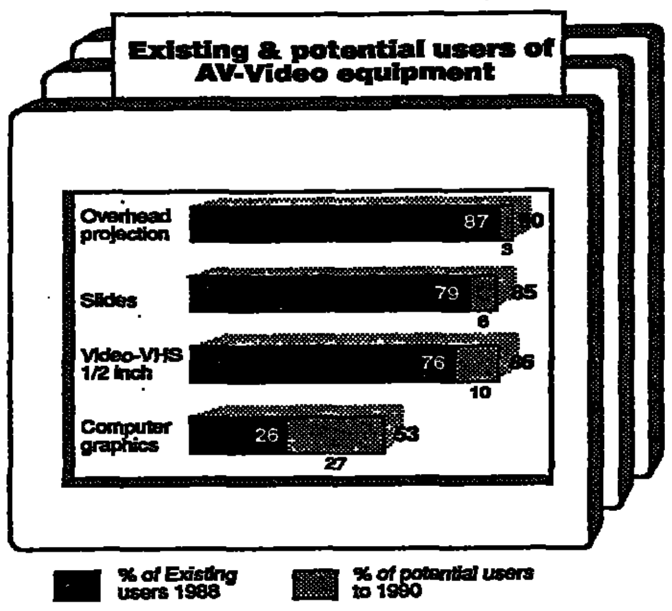
Susan Drain, an analyst at Dataquest, the US market research organisation, says that 418m acetate sheets for overhead projectors, worth $240m, are expected to be sold this year in the US. Last year the west European market was valued at $116m and Dataquest estimates that it will be worth $319m by 1992.

Video is also expanding as a *medium for* presentations and is expected, in the long term, to erode the market share of both overheads and 35mm slides.

However, the growth of video for presentations is being held up at present by the quality of the images it can create. Most systems are based on the US National Television Standards Committee format, which converts poorly into the European 625-line systems.

Sol Sherr at Westland Electronics expects the market for *video to take off properly with* the widespread introduction of high definition television.

One option available for presentations, using computers in *front of an audience,* remains in its infancy. It appears that managers have generally been unwilling to use computers for presentations through lack of confidence and nervousness about the technology.



Fine-tuning the product to suit the customer

Terry Dodsworth describes how the use of computer systems has helped maintain the fortunes of a specialist paper manufacturer

Ken Stokes, the UK computer paper manufacturer acquired by the Rockware glass group about a year ago, has expanded with scarcely a hitch since it was established in 1973.

In its early years, the company regularly reported turnover gains of between 30 and 40 per cent. While this sort of expansion is becoming more difficult from a larger base, it is still expecting growth this year of about 25 per cent. A significant element in achieving this, the company believes, is its use of computer systems.

Stokes turned to computers as a way of exercising control over a market which is inherently complex and changeable. About two thirds of the company's sales are in the bespoke computer paper business. In this sector, no two orders are the same and prices and margins can change by the day depending on market conditions. The company is achieving an average return of about 8 per cent on sales, but this is a mean derived from individual items which can go as high as 50 per cent in some cases on particularly esoteric products.

Stokes *boasts of carrying* more types of paper than any other company of its kind in the UK, starting from run-of-the-mill print-out products and going on to standard labels, invoices and much more elaborate multi-ply paper on which a different message can be printed on each sheet.

The company also offers a variety of coloured printing and is expanding rapidly in the computer envelope market – the sort of envelopes which recipients tear open via perforations at one end to pull out a form or letter that has been printed through an in-built carbon from the outside.

This market poses two problems. First, there is the sheer volume of different requests and orders, none of which Stokes wants to deal with according to a rigid formula. On average, the company receives 400 requests for quotations *a day and up to 700 in* busy periods. Apart from the different types of paper that might be asked for, Stokes also has to contend with bewildering differences of scale, from a handful of forms to several thousand. Prices can vary from £100 to £250,000.

Second, the company sells through a large number of agents rather than direct to the user. This puts a premium on efficiency and flexibility because the loyalty of the agents has to be maintained by quick responses and innovative products. Recent studies have shown that the agency sales system, run by entrepreneurial individuals in small companies, has captured more than 50 per cent of the computer paper market *and is continuing* to increase its share.

Stokes's answer to these market demands was to design a computerised quotations system that would allow a small administrative team to make almost instantaneous replies to queries. A team of 14 employees at the company's headquarters building near Wells, Somerset, handles all quotation requests, with the aim of responding within 24 hours. This is done on a battery of screens which generate price quotations, using an adjustable formula which Stokes has fine-tuned since it was first introduced in 1978.

The key to the system is a screen lay-out which requires the estimators to enter the *basic details of a particular* quotation by filling in a number of boxes. These details comprise items such as quantities, the type and shape of the paper to be used, ink, the amount of colour needed, any perforations and the requested style.

All these points have a value in the cost formulations that the computer is programmed to make. Once the order entry process comes to an end, signalled by the estimator telling the computer what style of paper will be required, the machine hums through a series of calculations and flashes up a price.

Along with the price, the computer gives the operator other information, such as the *cost of setting up the factory* tooling for the job, the amount of paper wastage expected, the total cost and the profit margin on sales.

The production and financial information is not always employed passively. For example, it can be used by the estimator to manipulate the price of the project, either to achieve a higher margin, or to win a contract with a lower offer. "We like to give the estimators as much freedom to exercise initiative as possible," says Geoff Kingman, sales director.

The cost formulations are also linked to what Stokes calls its parameter files. These relate to the kaleidoscope of different formulations which the computer will use to generate a final price for a job. A change in any one element from which costs are built up – for example, the charge for paper wastage or for setting up one of the machines – will have an effect on totals.

Thus the parameter file allows Kingman to play with these different elements to arrive at what he regards as the right mix of profitability and factory utilisation. If he feels that a particular machine is becoming overloaded, or that because of strong demand for a specific product he could raise prices by about 5 per cent, he can call up the file to consider variations.

Stokes, says Kingman, is in the business of producing bespoke products where the *clients are not looking at a* standardised price list. "The beauty of this business is that every quotation is a job in itself."

The Thread that stitched up the American market

Acquisition and rapid assimilation by Tootal Group of the US Standard-Coosa-Thatcher thread business, allied to vigorous new management of Tootal Group's US thread activities, have transformed their scale and profitability – from a low-return business to one with a return of over 20 per cent on capital employed which now enjoys market leadership. The US success typifies Tootal Group's drive to achieve leadership in all its markets by strategic development and utilisation of its global marketing, distribution and sourcing skills. An international marketing-led group with sales of over £500 million, Tootal Group operates in over 20 countries and markets its products in over 60 countries worldwide. The Group's broad base of textile interests has been extended to include office supplies, decorative homewares and advanced non-woven materials. The fruits of Tootal Group's strategy are already apparent. Six years of profit growth and increasing returns on capital employed. In 1987/88 significantly increased sales and a record profit before tax of £40.3 million. Record 1988/89 half-year profits of £19 million – £2.5 million up on the 1987/88 interim.

This advertisement has been approved for the purpose of the Financial Services Act 1986 by Coopers and Lybrand who are authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Tootal Group

WINNING LEADERSHIP IN WORLD MARKETS

To receive a copy of Tootal Group's Interim Report 1988 write to: Audrey Lloyd-Kitchen, Director of Corporate Affairs, Tootal Group plc, Tootal House, 19/21 Spring Gardens, Manchester M60 2TL

The WNO Falstaff

COVENT GARDEN

The Welsh National Opera, blessings on them, have brought their marvellous new production of *Falstaff* to London for three performances. (Blessings on Amoco, likewise, for sponsoring the visit.) "Peter Stein's *Falstaff*" one calls it, not out of any slight to Verdi and Boito, or to Richard Armstrong and the WNO orchestra, who on Monday night covered themselves with glory, or to the cast, chosen and balanced with enormous skill: but because this is Producer's Opera at its absolute best – a fine-tuning of musical and dramatic values to promote delight, and a new degree of appreciation of the work produced even in the most experienced *Falstaff*-lover.

After opening night in Cardiff last month, Andrew Clements admired in Stein's production "an extraordinary fusion of stagecraft and musical perception." That fusion can only have gained in extraordinariness in the intervening period, since Monday's performance all but burst with musical and dramatic energy exactly focussed and directed. We have passed through a period of muted *Falstaffs*, autumnally shaded, with the titular part taken at times to the edge of tragedy (the Giulini-Ronald Eyre collaboration on this very stage a few years ago was perhaps the most notable example). One can only hope the period is now passed, definitively closed by this happiest of marriages between comic vitality and comic discipline.

Of all the many joys that the evening offers – the bubbling yet sharp-pointed detailing of the women, the iridescent glow of the young lovers, the richness of minor-character perception that never nudges the ribs – perhaps the greatest is the restoration to Falstaff of his comic toughness and robustness. In Donald Maxwell's brilliantly physical performance, one senses that the braggadoccio, the schemes and the sexual pretensions are based largely but not wholly on optimism and fantasy. We soon come to feel that in his youth this great beached whale of a man must indeed have been "sottile;" not every vestige of attractiveness has disappeared. In this production the dominance of the role is total, apparently effortless, and so buoyant that his final translation to the skies (a wondrous piece of business) seems only – and most beautifully – natural.

Donald Maxwell as Falstaff

The performance looks and sounds splendid in Covent Garden, even if on Monday the scene changes took longer than they should have, and although in the opening forest sequences the stage management and side-lighting went briefly awry. The finesse of character-and-voice interweaving (what a joy to hear the 4-against-3 ensemble in the second scene of Act 1 so unfraught and truly touched off!) is a quality not found all that frequently in Covent Garden opera performances – certainly not in this quantity. And what bliss to be spared the Covent Garden surtitles!

Max Loppert

The House of Blue Leaves

LILIAN BAYLIS THEATRE

Clamped on to the back of Sadler's Wells, where once there was a rubble-strewn storehouse, the new Lilian Baylis auditorium honours its patron saint's Old Vic connection by bringing back drama to Rosebery Avenue.

No corners are cut or expense spared (which would not have pleased Miss Baylis) in Nick Hamm's opening production. It introduces London to John Guare's wonderful 1971 New York hit *The House of Blue Leaves*, notably revived on Broadway two years ago.

Denis Quilley plays Artie Shaughnessy, the Central Park zookeeper who writes derivative amatory songs for amateur nights and dreams of a summons to Hollywood while holed up in Queens with his wife and mistress.

The theatre itself is an ugly square box of nakedly exposed breezeblocks and excruciatingly uncomfortable tip-up red seats. The project has cost about £1.5m with initial funding from the now disbanded Greater London Council. Further public monies from the London Borough of Islington and the Government's Urban Programme have been topped up by funds and trusts, British Telecom and private donations. Alas, the hideous architectural result is all too redolent of a "community facility."

Such an arena, with its bleacher seating and undefined stage area, is ill-suited to a piece such as this but the cast occupies it with energy and resolution.

Artie, like some transatlantic Archie Rice, is "too old to be a young talent." He is planning to consign his wife Bananas (Nichola McAuliffe) to an asylum, a house of blue leaves he has seen on the road out of town. His lover, Bunny Flingus (the stand-up comedienne Helen Lederer), will sleep with him but not cook eggs and bacon or veal in red oranges ("We gotta save some magic for the honeymoon").

The year is 1965, the October day of Pope Paul VI's visit to New York. The trio's hates and aspirations are counterpointed with the nutty resentment of Artie's son (a brilliant mimetic display by a new actor, John Fitzgerald-Jay), the arrival of a catastrophically deaf starlet (Kelly Hunter) and three nuns who have missed the Pope and want to see him on TV.

The starlet is a girlfriend of the Hollywood producer, Billy Einhorn (Harry Towb), who only arrives back in his hometown limbo of Queens after she and two of the nuns have been inadvertently blown up.

The play is a period piece that does not seem dated. It revels in a free-wheeling style of direct address, sudden song (Quilley plays piano and croons at regular intervals), outrageous criss-cross dialogue, bold poetry and a strong sense of location.

Quilley is magnificent, prowling the stage like one of his own caged animals, staving off the final moments of despair and tragedy with a desperate determination to please. But the performance would be ten times better in more congenial circumstances.

Michael Coveney

Age of Enlightenment Orchestra

ELIZABETH HALL, LONDON

Divided between the Wigmore Hall and the South Bank, the Early Music Centre Festival spanned three centuries in five days of concerts. It took as its theme the years 1588, 1688 and 1788, and ended on Sunday with a concert by the Orchestra of the Age of Enlightenment conducted by Sigiswald Kuijken consisting of the three symphonies which Mozart wrote in 1788, the E flat, G minor and the Jupiter, K.543, K.550 and K.551.

It was a substantial programme; the symphonies were separated by intervals, and these being high-fidelity, period-instrument performances, every repeat was observed. While that practice cannot be criticised for first and slow movements, the idea of repeating the second halves of Mozart's finales in these works, even if musicologically correct, never seems to me anything but highly questionable. The shock effect of the development section of the G minor's finale, careening off into remote keys and dragging itself back by stages is electrifying once, unremarkable and fundamentally undramatic at a second hearing.

It was a strange piece of literalism to find in the context of performances which put dynamism and emotional force at a premium. Kuijken's approach was supple and rhythmically adroit, the Age of Enlightenment's playing, after an uncertain start to the E flat symphony, nimble and responsive. Tempi were sometimes surprisingly measured – the G minor's finale kicked off at a leisurely rate yet was still shaped towards an explosive development, first time around at least. But slow movements were unfolded with easily naturalness, and the transparency of the strings made the workings of the inner parts a constant delight.

Harpsichord continuo was used sparingly, to thicken climaxes or rack up tension; there were some first-rate wind solos with horns and flute especially outstanding. It has become difficult to consider seriously any view of a Mozart symphony which does not take account of the period practicalities that are the stuff of concerts like this. Starting from that basic premise, however, there are any number of interpretative roads for a conductor to take. Kuijken takes a left-of-centre position, liberal in his use of dynamics, generous in his emotional commitment, and concerned above all to communicate.

Andrew Clements

TELEVISION

The tenor of times to come

Channel 4 is currently repeating the Thames *Hollywood* series on Saturday. The venerable interviewees remind us that as an art-form the cinema was invented, reached its apogee and produced its great classics virtually in a human lifetime: it's like chatting to the youth who cleaned Rembrandt's brushes.

Agnes de Mille has recalled the giddy exuberance of the film pioneers – her father compared them to the pre-Elizabethan dramatists, blazing the trail for the masters to come – and the rural bliss of the unspoilt countryside round the orchard which respectable land-owner Mrs Wilcox had sentimentally named Hollywood (she welcomed "upright, God-fearing abstainers" – oh well . . .). Colleen Moore still wore the fringe and bangs she introduced to the world more than half a century before and just happened to remember off pat Scott Fitzgerald's encomium of her. These people were in at the beginning of something momentous and actually knew it at the time. This is television's own art, and something to treasure.

The vitality and optimism of the early film industry might sum up American enterprise at its best. What will future historians make of the British Eighties, when the average Brit is being dragged naked into the marketplace at home and abroad? History is in the making, with an open Europe awaiting us and deregulated broadcasting that can bring sex films by satellite into every home. How is the excitement of the times manifesting itself on television?

Starting with the young: not much. Last week *Chegwin Checks It Out* (BBC 1) interviewed a garrulous, apparently American matron who, it transpired, is the Norwegian Ombudsman for children. None of our political leaders thought such a figure necessary here. The Prime Minister, in sincere and confidential mood, maintained that juvenile interests are covered already by existing ministries. "What affects children is education, health and crime," she purred in tones that apparently approved all three.

The families in last week's *Telly Addicts* (BBC 1, Tuesday) seemed innocent of such sweet impeachments as they stolidly bore the insults of their question-master. Less square-eyed than square-bodied and sturdily sedentary (query: is telly-addiction a genetic condition?), they answered questions on sitcom, drama and soap more easily than culture (George Washington and *My Music* met a blank). The programme plods leadenly since the question master's ignorance of the answers is apparently as great as his victims'. Wait until *Colpo Grosso* and *Charmes*, glimpsed by special licence in *The Media Show Special: Television 2000* (Sunday, Channel 4), bring caressing sexuality into suburban lounges. These programmes, commonplace on the continent, are banned here; but, as Kate Adie pointed out, once satellite TV is in full flow, there will be "no hope of regulating the stuff from the skies."

Of course there was an element of scare in the programme. A mock-scenario of TV developments in the Nineties, an international supermarket for mini-series that must appeal to Los Angeles as much as Birmingham, culminating in *The Nancy Reagan Story* with Joan Collins, brought a snort of "paranoid fantasy" from Ken Trodd, himself a noted producer of paranoid fantasy. And perhaps our own *Crimewatch* will not touch the depths of the gloatingly reconstructed murders on *America's Most Wanted*, deemed "gross" by a pleasant and intelligent policeman in the Aberdeen vox pop sample, and put out, Muriel Gray reminded us, by "Mr Murdoch's channel." Nevertheless, director Karl Francis emphasised that present difficulties in showing "problem" films (his subjects have included the mentally handicapped, alcoholism and Ireland) will be intensified when the principal criterion is making money for the network. What price the probing documentary on unemployment on Merseyside when you aim to flog your wares world-wide – or even a prestige serial like *A Piece of Cake* which costs £580,000 an hour to make?

> Once satellite TV is in full flow there will be no hope of regulating the stuff from the skies. Conversely, showing films on subjects such as alcohol and the mentally handicapped will become more difficult when the criterion is making money for the network

The futuristic fantasy sequence was unexpectedly close in one respect: it predicted a ban on coverage of terrorist activities. The film was made before the government's Sinn Fein measures. What else may come true? The excellent Adie summed it up: "Television in Britain is worth talking about. Elsewhere it's crud – moving wallpaper for morons." Even Esther Rantzen was on hand to remind a bullying Eddie Shah that her populist pulpit began as an experiment which would never have been backed without the principles of public service broadcasting to cushion the risk. As Michael Fish said in the imaginary weather report sponsored by Burberrys: "You're gonna need that raincoat."

Elsewhere the *Zeitgeist* revealed itself as sombrely foreboding. BBC1's *Omnibus* gave us the newly-politicised Harold Pinter, measured, lucid and convincing in his vision of freedom of expression slowly stifling in this country. Occasionally he betrayed the over-zealousness of the convert, as when condemning mockery as a British middle-class weapon (others have used it honourably, from Aristophanes onwards). The implication that police horses excrete to order on Kurdish demonstrators attributes extraordinary powers of intellect and muscular control to those sagacious beasts: the Thatcherite ideal of health, education and nefariousness, perhaps?

Tuesday is quite an evening for searching out the zeitgeist. *The Divided Kingdom* (HTV for Channel 4) bears the name of Colin Thomas as one of its directors, a guarantee of intelligence and scrupulous integrity. Its five questing Brits have humour, self-awareness (in Julian Critchley's case, slight self-parody), tolerance and articulateness in common. If their slices of the UK really were united, instead of increasingly divergent like the rest of our fragmented society, we would make a winning team in the civilisation stakes. Margo Macdonald admitted she wanted it both ways as a Scot – "being British is a thing of the spirit." Full marks for a representative of loyalist Ulster who, though "more British than the English," is not automatically depicted as a hellfire bigot. He gently recalled Ulster's claims: these paid in blood in two world wars, to its own identity. As well to remember the bitterness felt by the province that suffered Hitler's bombs towards the republic that gave him a requiem mass and sent condolences to the Nazis. The north, "dark and tender and true," has its grudges, too; and not all go back 300 years.

Tuesday's *The Return of Shelley* (ITV) finds Hywel Bennett still the master of casual, off-hand, sardonic, throwaway self-destruction as the wilfully unemployable and over-educated. I suspect there is more perceptive comment on Britain today in this half-hour sitcom than any number of worthy documentaries. Our hero has returned from abroad to sunrise over Bejam and "the sweet smell of fresh urine in the phone boxes." Brilliant support from his yuppy neighbours, amiably mindless public school city man (Andrew Castell) and vindictively lacquered estate agent (Caroline Langrishe, with her jeer of "Mr Graduate Smartypants!"). All this plus a vicar as mad as only Graham Crowden can be.

Much funnier – and more serious - than Michael Palin's disappointing *Number 27*, BBC1's drama offering last Sunday. Too near *The Lady Killers* for comfort, its themes of thuggish developers, crooked district surveyors, and sweet old ladies bullied out of house and home, deserved better than one-dimensional characterisation, unatmospheric direction and untidy plot-line. Alun Armstrong's suited developer was excellently nasty, and the 90-year-old Joyce Carey was a sweetly touching old lady.

Martin Hoyle

Two one-act rarities at Wexford

The third and last of this year's Wexford productions began with a good ruse. The members of a small opera company are gathering on stage to start rehearsals for their next operas and it is only when work is about to begin that the company manager delivers his coup de grace: the *Don Giovanni* on the playbill is to be by Gazzaniga not Mozart, and the *Turandot* by Busoni not Puccini.

The company is aghast. The prospective Donna Anna, like any good prima donna, stomps off in a huff when she discovers that her character gets no aria and is consigned to a convent at the end of the first scene; and the baritone is horrified to find that Gazzaniga turns Don Giovanni into a tenor. The only smile is on the faces of the audience, for they knew what they were getting all along and the chance to catch this pair of one-act rarities was one of the main attractions of the festival.

There is a special fascination about getting to know alternative versions of old favourites. The history books may debate whether Da Ponte or Mozart had heard Gazzaniga's *Don Giovanni* before they wrote theirs, but as soon as you hear it, you know that at least one or other of them had. In many passages the correspondence is extraordinary – to the point where one almost seems to be following the thread of the Mozart masterpiece line by line.

Of course, this *Don Giovanni* is no masterpiece: the music is polished routine and Gazzaniga's characters go only skin-deep. But the piece was worth exhumation and arguably deserved a production that treated it with more integrity than did this (admittedly highly amusing) show of amateur theatricals, devised by Patrick Mason. By the end the piece had slid into something akin to music-hall farce, thanks to a rollicking musical finale and some trim 1920s costumes.

As if to compensate, the singing was both good quality and serious: a fine, classical Don Giovanni in Miroslav Kopp, a lyrical Duke Ottavio (sic) from the Irish tenor Finbar Wright, a personable quartet of ladies, and a promising vocal contribution from the young baritone Alan Cemore as Biagio, Gazzaniga's equivalent of Masetto. In 1787 alone there were five different *Don Giovanni*'s and we must now wait to see if Wexford intends to give us the other three.

Of Busoni's *Turandot*, as it is better known, there is less need for description. This is an opera that can reasonably claim for itself a discrete existence, away from the overbearing shadow of Puccini's grand spectacle. Busoni may seem ordinary as a dramatist alongside the Italian, but there is in his more modest score an alluring mixture of the exotic and the sinister, an ambivalence in the musical language, that could hardly be better suited to this subject.

The Wexford performance gave a fair idea of the opera's strengths and weaknesses. Kristine Ciesinski was an authoritative Turandot and there was appealing support from Alison Browner in the lyrical role of Adelma and Bruce Brewer, a winsome Truffaldino. Only a Kalaf somewhat less than heroic let the side down. Mason's production, designed by Joe Vaněk, was unambitiously correct in style, as had been each of its companions this year: Wexford does not traduce the operas it puts before its public.

This is also the time to mention the Radio Telefis Eireann Symphony Orchestra and Wexford Festival Chorus for their generally praiseworthy contributions throughout the festival, rising to a high standard of performance in this Busoni under Simon Joly. The reception was ecstatic: Wexford thirsts all year for its festival and a glass brimful with Guinness could not be greeted with more enthusiasm. Next year brings an enlarged programme with more rare operas - the supply, fortunately, is never-ending.

Richard Fairman

ARTS GUIDE

October 21-27

THEATRE

London

Measure For Measure (Barbican). Pick of the RSC London repertoire, a gripping revival by Nicholas Hytner, strongly acted, with witty design references to Lloyd's of London and the Pompidou Centre in Paris (638 8891).
The Secret Rapture (Lyttelton). Brilliant new David Hare piece for the National Theatre, a satirical but moving romance on life, love and family politics in Thatcher's Britain. The play of the year (928 2252, cc 240 7200).
Easy Virtue (Garrick). Transfer of King's Head revival of early Noel Coward, same period but lesser vintage than Hay Fever, but worth seeing (379 6107).
South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, with Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair (839 5989).
The Phantom of the Opera (Her Majesty's). Spectacular, emotionally nourishing new musical by Andrew Lloyd Webber (839 2244, credit cards 379 6131/240 7200).
Follies (Shaftesbury). Eartha Kitt and Millicent Martin now decorate Mike Ockrent's strong revival of Sondheim's 1971 musical, in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre (379 5399).
The Admirable Crichton (Haymarket). Rex Harrison and Edward Fox in an enjoyable revival of Barrie's imperishable comedy of class barriers and reversals on a desert island where a shipwreak turns the tables on the ruling class. (930 9832, CC 379 4444).
Dry Rot (Lyric). Brian Rix returns to the stage after an absence of 12 years in a 1950s farce that prefigures the capture of old England by the spivs and opportunists. A genuine classic (437 3686).
The Sneeze (Aldwych). Eight short Chekhov pieces – four vaudevilles, four early stories – translated and adapted by Michael Frayn and performed in various styles by Rowan Atkinson, Timothy West and Cheryl Campbell. Slightly rewarding, intermittently funny (836 6404, CC 379 6233).
Sugar Babies (Savoy). Mickey Rooney and Ann Miller repeat Broadway roles and exhibit stamina and star quality in a mixed bag of coarse burlesque sketches (836 8888).

Utrecht

English Shakespeare Company opens its Dutch tour of all the history plays with Richard II (Tue), Henry IV, Part 1 (Wed) and Henry IV, Part 2 (Wed). Stadsschouwburg (31 02 41).

New York

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).
A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).
Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).
Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its US incarnation: the skaters do not have to go round the whole theatre but do get good exercise on the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up. silly plot (586 6510).
Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).
M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).
Speed-the-Plow (Royale). David Mamet applies his biting sarcasm and ear for the exaggerations of American language to Hollywood, in this screamingly funny and well-plotted exposé of the film industry (239 6200).
Stranger Here Myself (Public). Angelina Roux performs two decades of Kurt Weill's songs in a one-woman show covering the composer's careers in Berlin, Paris and New York (598-7100).
Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Driving Miss Daisy (Eisenhower). Julie Harris stars in the Pulitzer Prize winning play about a black chauffeur and his elderly, understanding mistress as the South undergoes sweeping changes that cannot help affecting them. (254 3670)
Sleuth (Eisenhower). Stacy Keach and Maxwell Caulfield star in the mystery pitting a writer against a mild-mannered travel agent who's stolen his wife's affections. For details inquire at the theatre. (254 3679).

Chicago

Romeo and Juliet (Goodman) The new season starts with Michael Maggio's production set in the Italian section of an American city at the end of the First World War. Michael Cerveris and Phoebe Cates star. Ends Nov 5. For details inquire at the theatre. (443 3800).

Tokyo

Kabuki (Kabuki-za). Performances at 11am and 4.30pm. In the afternoon: Kagamiyama Gonichino Iwafuji. This play is based on a scandal that occurred in court shortly before it was written but, in typical kabuki fashion, transposes it to a remoter age. It is noted for its spectacle and stars kabuki's greatest showman Ichikawa Ennosuke III, who plays seven roles and performs his celebrated mid-air stunt, floating over the heads of the audience. Excellent programme and earphone commentary in English. Tickets also available for a single act. For details, enquire at the theatre.(541 3131).

Gorky Theatre, Leningrad in Peter Schaffer's Amadeus (Mon, Tues, Thurs), Uncle Vanya (Wed) Globe Theatre (572 6331). The Bolshoi Drama Theatre, better known as the Gorky Theatre, was founded in 1919 and is one of the Soviet Union's most popular and most innovative companies. Its repertoire is strong on both the classics and on new plays by Russian writers. In recent years its repertoire has been widened to include new, if uncontroversial works from the West, by the likes of Schaffer and Neil Simon. For details enquire at the theatre.

Aoyama Theatre. The 35 Steps. Musical revue by the Shiki Theatre Company, which specialises in musicals and is 35 years old this year. Extracts from major Shiki productions, from West Side Story to Phantom of the Opera. For details inquire at the theatre. (0120-489444).

SALEROOM

Irish successes in Dublin

Christie's relaunched its Dublin sales of Irish paintings on Monday evening with spectacular results. A stunning canvas of Hastings Railway Station painted by Walter Osborne around 1890, fresh on the market but not in great condition, went to the London trade for I£52,800 (estimate I£30,00-40,000). A dramatic, expressionistic landscape, "Sleep beside falling water" by Jack Butler Yeats also sold well over estimate to a private English collector for I£44,000, and his "Summer Storm" went to a London gallery for I£37,000.

The auction also produced a handful of records. Dillon Antiques of Dublin paid I£27,500 for William Sadler's "Donnybrook Fair," a record for the artist. Sean Keating's dreaming portrait of an Aran fisherman was secured by the same dealer for I£25,300. Perhaps the most surprising of the records set were the I£17,600 paid for M.J. McGonigal's 1952 painting of his family set in the landscape at Errisberg, and a contemporary abstract canvas by Louis Le Brocquy, which realised I£24,200.

According to Christie's, the market has become far more selective since its last sale a decade ago. Though some 20 per cent of the lots went to London trade, the majority of the bidders were Irish collectors. The sale totalled I£720,452, with 22 per cent unsold.

The costumes sold at Christie's South Kensington yesterday also proved a tremendous success. A pair of rare, embroidered maroon velvet mule slippers made around 1700, and in wonderful condition, doubled its lower estimate by going to a Japanese collector for £10,000. More extraordinary still, a single mule of silk brocade and unusual shape, made around 1660, sold for a staggering £13,000, against an estimate of £1-3,000. A number of museums worldwide, both private and public, are in competition as they build up costume collections.

Members of the Chelsea Arts Club can heave a sigh of relief – or have another celebratory drink – for Monday's evening's auction at Sotheby's of works of art donated by members raised a satisfactory £116,408. The Club, founded in 1891 by Whistler, Sickert, Wilson Steer et al to provide a meeting place for artists, needed to raise funds for a new lease on its Old Church Street premises. While 35 per cent of the lots were bought in, others sold well above estimate. Top lot was a Bill Jacklin pastel, "42nd Street," which sold for £9,680. Richard Long's "Light Winds", an unique printed text, realised £6,380.

Susan Moore

Innovation

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Wednesday October 26 1988

The politics of mergers

IT IS A curious fact that the Thatcher Government, committed to freeing industry from political meddling, has shown no interest in removing one of the most visible and arbitrary forms of ministerial intervention – in the vetting of mergers. Yesterday's decision by Lord Young, Trade and Industry Secretary, to refer Minorco's bid for Consolidated Gold Fields to the Monopolies Commission was preceded by several weeks of lobbying by the two companies. The lobbying is regarded as necessary because *the discretion in the hands of* the Secretary of State is so wide.

The problem stems from the breadth of the criteria set out in the 1973 Fair Trading Act, under which the Monopolies Commission judges whether or not a merger is against the public interest, and from the power vested in the Secretary of State to decide on references. In both respects the rules for mergers contrast with those applying to restrictive practices, where the objective is clearer – to prevent anti-competitive agreements between companies – and where the implementation of policy is in the hands of the competition authorities (the Office of Fair Trading).

Tebbit ruling

In 1984 Mr Norman Tebbit, then Trade Secretary, announced that references of mergers to the Monopolies Commission would henceforth be made primarily on grounds of competition. But the powers in the Act were not changed. References can still be made, and are made, for reasons other than competition.

The stated reason for the reference of the Minorco bid is concern over reduced competition in the supply of high-value metals such as titanium. Even if this anxiety is justified, the Monopolies Commission itself will consider other aspects of the bid, including the argument that South African control could damage an important British mining house; it could conceivably rule against the bid on these non-competition grounds.

The Tebbit guidelines are not a substitute for replacing ministerial discretion over references with clear rules and for confining the attention of the commission to competition. Too often in the past – and it could happen again – ministers have used the "public interest" as a cloak for short-term political convenience.

The Government needs to think again about mergers legislation, which in its present form confuses two entirely distinct issues. One is the potential impact of mergers on competition. This is the proper concern of the competition authorities, which should be asked *to judge whether a* merger is likely to reduce competition and, if so, whether there are offsetting gains, in greater efficiency, sufficient to allow the merger to proceed.

Company decisions

The other issue relates to the very wide range of actions by companies – plant closures, transfers of head offices from one part of the country to another, sale to a foreign company, new borrowing arrangements leading to a risky level of gearing – which might be regarded in one sense or another as potentially damaging to the public interest. Some of these actions may be associated with mergers, many are not. There is no logic in using the Fair Trading Act, which should be about competition, to intervene in some of the decisions, because they are linked to mergers, but not in others.

Competition policy should be about competition. If the Government wants reserve powers to block acquisitions by foreign companies, it should look at the provisions of the Industry Act 1975 (which contains such powers) and make them more workable. If it is concerned at the transfer of control of enterprises away from Scotland or other parts of the UK, it should consider legislation as part of regional policy. If it wants to discourage merger activity in general, it should examine whether company law, taxation or the structure of the financial markets gives too great an incentive to takeovers as an avenue of corporate growth.

It is time to end the use of the Monopolies Commission as a political escape hatch.

The EC opts for sanity

THE European Commission's decisions last week on the external dimension of the single market programme are a small victory for sanity. Probably the most closely watched – and most immediately pleasing – of these decisions was that on banking, viewed in the Community and abroad as a key test of whether a "Fortress Europe" was in the making. None the less, however welcome, the decisions are only one battle in a war that has a long way to run.

The Commission's paper follows a disturbing speech last July by Mr Willy de Clercq, the External Affairs Commissioner, in which he made three startling suggestions. First, non-EC banks already licensed in a Community country might be prevented from benefiting fully from the single market, failing an acceptable reciprocal bargain with the non-Community country from which they came. Secondly, by reciprocity Mr de Clercq meant "equal access," defined by "whether similar institutions from all member states are given the same treatment in the non-Community country concerned." Finally, Mr de Clercq indicated that, in many cases, the EC would "pursue a symmetry not so much in the legal equivalence of conditions of access to markets, but rather an equivalence in their economic effects."

Shaking the tree

If Mr de Clercq's intention was to shake the tree and see what fell on his head, he should have been delighted. In his response in September, the Acting Secretary of the US Treasury, Mr Peter McPherson, stated that resort to what he called "mirror-image" reciprocity would set the EC on a collision course with the US.

In the event, the Commission has rejected Mr de Clercq's more provocative ideas. Instead, it has agreed that, in the case of banking, "there can be no question of depriving the subsidiaries of foreign firms already established in Community member states of the rights they have acquired." At the same time, where Gatt obligations do not exist, *the EC reserves the right* to negotiate bilaterally to obtain "a guarantee of similar opportunities – or at least non-discriminatory opportunities." Finally, by "reciprocity" the Commission says it means neither identical legislation to its own nor sectoral reciprocity based on "comparative trade levels."

So far, so good. Insistence on the sort of reciprocity proposed by Mr de Clercq would have been both dangerous and pointless. In the case of banking, for example, American regulations currently confer on foreign banks privileges denied to domestic institutions. Worse, insistence on retrospective reciprocity would violate the principle of national treatment, which is enshrined in Article 58 of the Rome Treaty.

It would be premature, however, to conclude that the EC has opted for enlightened liberalism. Though the Commission's decision on "retrospective reciprocity" sets an important precedent, it appears to apply strictly to banking.

Slippery term

Having rejected some potentially damaging definitions of reciprocity, the EC must now develop a coherent and comprehensible definition of this slippery term. In doing so, it must remember that reciprocity is a technique of liberalisation, not a fundamental economic principle. Most important, the Commission *should focus on expanded* opportunities, not pre-specified outcomes, while emphasising such basic principles as rights of establishment, national treatment and non-discrimination.

It is possible that the emphasis on reciprocity in banking will ultimately prove a monumental waste of time, since the EC's future banking regulations are unlikely to take effect much before 1992. By then, any third country bank which fears problems over reciprocity will probably have pre-empted that threat by seeking a national licence from an EC member country. But more than banking is involved. If reciprocity is to be the flag nailed to the EC's mast, then the sooner the EC makes clear what precisely it represents, the better.

A relationship of mutual suspicion

Anthony Robinson examines Anglo American Corporation's political and economic role in South Africa

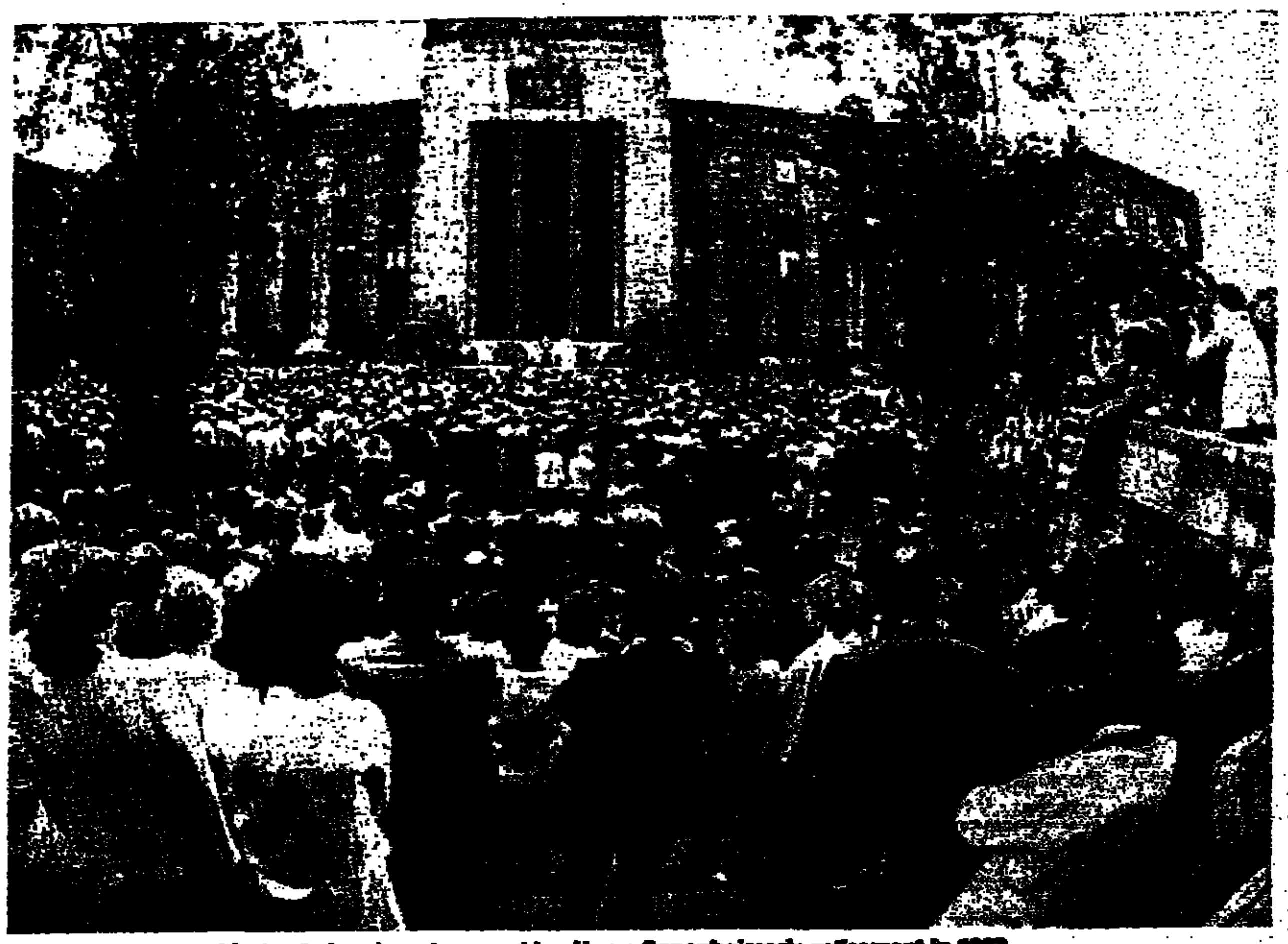
The news that the British Government had ordered a competition-law investigation of Minorco's contested bid for Consolidated Gold Fields sent senior managers at the Johannesburg headquarters of Minorco's parent, Anglo American Corporation, into urgent discussions yesterday. In London, the Government insisted that the Monopolies and Mergers Commission investigation was prompted by concern that the bid might create a near monopoly in minerals like zirconium and titanium – and had nothing to do with Minorco's South African connections. None the less, the investigation will keep the spotlight clearly focused on Anglo and its stablemate, the De Beers diamond corporation.

It is not the first time that the habitually discreet flagship of English-speaking South African capitalism has come under scrutiny, although more often than not the probe has been initiated in Pretoria. *Three years ago, for example,* when Mr Gavin Relly, Anglo's chairman, returned from talks in Lusaka with leaders of the banned African National Congress (ANC), a furious South African Government reacted much as it reacted to recent similar talks engaged in by Dr Danie Craven, President of the SA Rugby Board. It screamed *lese majesté* and betrayal.

The inference that Anglo, in its search for profit and survival, was prepared to betray the broader interests of South Africa was hotly denied at the time. But similar domestic rumblings have surrounded the Minorco bid, which marks an attempt to break out of the South African straitjacket and become a global player in gold and minerals. Though Minorco's planned disposal of Consolidated Gold Fields' 38 per cent of Gold Fields of South Africa (GFSA) is mostly to the Afrikaner Rembrandt group, it would, after all, represent a form of *large-scale disinvestment.*

In part, South African suspicion of the Anglo-De Beers group is a reflection of its sheer size and influence throughout the economy. But it is also a legacy of the old rivalry between English speakers and Afrikaners which reached its tragic climax in the Boer War. Many Afrikaners, especially traditionalists who will vote for the Conservative Party in today's municipal elections, still believe that English *geldmag*, or money power, robbed them of the old Boer Republics. The power of the gold barons, exemplified by Anglo's Oppenheimer family, was symbolised in the Afrikaner press caricature of the grasping "Hoggenheimer".

Anglo remains the target of right-wing Afrikaner populism. It is still big in gold and diamonds – and now also has a stake in an estimated 600 South African companies across the spectrum from wine to publishing and high-tech steels to motor cars. (Gavin Relly notes with pride that 28 per cent of the capital value of firms listed on the Johannesburg stock exchange is represented by ventures created by Anglo.) Outside South Africa, particularly on the left, Anglo is seen as the epitome of exploitative capitalism and chief beneficiary of apartheid.



The ceremony outside Anglo headquarters marking Harry Oppenheimer's retirement in 1982

The trouble here is that the classic Marxist analysis of the state as the expression of the interests of the dominant economic class has never quite fitted the South African situation. Pretoria depends on the tax revenue and export receipts of the mining industry; the mines rely on investment tax breaks for long term viability. But relations between Anglo, based in Johannesburg, and the Afrikaner-dominated government 30 miles up the road in Pretoria have been long characterised by mutual suspicion bordering sometimes on *incomprehension.*

There could be no clearer indication of Anglo's distaste for apartheid and 40 uninterrupted years of Afrikaner government than the financial support it has given over the years to opposition parties such as the Progressive Federal Party (PFP). Before taking over as Anglo's chairman in 1957, Harry Oppenheimer himself was an opposition MP for many years. He actively encouraged Zach de Beer, a long-time friend and former Anglo senior executive, to take over the PFP leadership earlier this year. Relations between Anglo and the Government were certainly at a nadir during the regime of Dr Hendrik Verwoerd, the high priest of apartheid. There has since been some improvement under President P.W. Botha, whom Mr Oppenheimer has described as a reformer, albeit an inadequate one. But the distance remains.

In return, Pretoria dragged its heels for decades on demands by Anglo and the other mining companies for the scrapping of laws which blocked black advancement by reserving top jobs on the mines for whites. *It still* has the power to do this; it is, for example, the government Mining Engineer, a civil servant, who determines which individuals receive blasting certificates.

So it came as a surprise to 44 Main Street, Anglo's Johannesburg headquarters, to read in the Wall Street Journal recently that Admiral Stansfield Turner, former chief of the Central Intelligence Agency, believes that *Anglo is "under the control" of the* South African government. This shot across Anglo's bows was part of Gold Field's strategy of warding off the Minorco boarding party by highlighting its South African links. But while brokers and analysts in Johannesburg accept the validity of the assumption that the influence of Harry Oppenheimer and the Anglo inner circle would continue to be felt strongly in a post-merger Minorco, they draw a line at the suggestion that behind "Harry O" lies the hidden hand of Pretoria.

Nevertheless, Admiral Turner's attempt to discredit the Minorco bid does raise questions about the role of Anglo American Corporation and *its* stablemate, De Beers, *inside* South Africa. Despite Mr Oppenheimer's record of opposition to apartheid, the historical linkage between the mining industry and apartheid is incontrovertible. The need for lots of cheap, docile labour led to the migrant labour system, barrack-like single sex hostels and pass books which the National Party later extended from the mines to black society at large after it won power in 1948.

Domestic suspicion of the Anglo-De Beers group stems from its sheer size and influence

However, the mining industry has also been the driving force behind the modernisation of South Africa. The process would have gone further and faster had the gold price not been fixed at a level which placed a rigid ceiling on costs and, above all, wages. The fixed price, first $35 an ounce, then $42, locked the industry into a low wage, low productivity syndrome until the gold price was freed in the mid-1970s.

Despite this handicap, mining transformed a sleepy, rural colony into a modern industrialised economy with a large, de-tribalised and increasingly skilled black urban working class. Mining also fostered the rapid development of the finest infrastructure in Africa. Anglo, as the leading mining finance house, has been in the forefront of this diversification and modernisation. Its "progressive" image and the broader interest of key figures like Harry Oppenheimer himself in understanding and shaping the wider framework in which Anglo operates has, in recent years, attracted a group of unconventional younger men.

These younger men, like labour relations consultant Bobby Godsell, a former sociologist from Natal, Don Ncube, one of a small but growing number of senior black executives, or the group's in-house futurologist Clem Sunter, a gangling Englishman who joined as a management trainee 22 years ago, see the need for a common South African patriotism to replace the present divisive tribal loyalties. They believe the best way to black advancement, and white survival, is through a functioning capitalist economy which recognises and retains white skills.

The way in which Anglo has influenced the broader debate on a post-apartheid South Africa is perhaps best illustrated by the extraordinary *impact of a presentation on the alternatives* facing South Africa which Clem Sunter hawked across the country for nearly two years. Presented to over 100,000 people from red-neck Afrikaner neo-Nazis to left wing trade unionists, the Sunter thesis that South Africa was at a cross roads and could chose between a "high road", leading to faster economic growth and socio-political progress, or a "low road", leading to poverty and civil war, had a major impact on the perceptions of this polarised society.

Not that Anglo is all philosophers and futurologists. Mining, the core of Anglo's empire, is a tough business, especially in South Africa where many of the newer mines are nearly four kilometres deep. Discipline here is as necessary for safety as for production. Suspicion still lingers in parts of middle and lower management that 44 Main Street is stuffed with "long haired liberals". Mining analysts worry that Anglo has too few top managers with direct experience of mine or factory management. They express similar doubts about the new Minorco "hands on" management team in London, apart from the proven Sir Michael Edwardes.

All these contradictory elements came to a head during the three week strike by black miners in August last year. Mine managers at the heart of the dispute insistently pressed head office to take a firmer line against intimidation and warned that several of the deep mines in particular would be destroyed if the strike did not end quickly. After attempts to negotiate a settlement dragged on unsuccessfully, Anglo finally toughened up. It closed shafts, sacked over 36,000 men and threatened further dismissals unless the strike ended. The industrial relations chief, Bobby Godsell, later denied that the liberal mask had slipped from Anglo's face. Its definition of "robust liberalism" did not mean sitting back and permitting the destruction of the industry, he said. "After three weeks we acted to defend our vital interests."

Most of the sacked workers have since been re-employed. But the unions are now weaker and more realistic about the real balance of power in the industry. Significantly, there was no miners' strike in 1988.

Somewhat grudgingly, National Union of Mineworkers officials grant that Anglo led the way in helping them organise on the mines and pushed for industry-wide acceptance of unionisation as a vital element in building what Mr Godsell calls "institutionalised channels of conflict." But they see Anglo's aim as securing a subtler form of control. These suspicions were confirmed when Anglo and De Beers announced a free share scheme last year. Over 160,000 workers accepted, despite union opposition. Gavin Relly explained the scheme as a means of getting workers to identify more closely with the company. But it is also designed to teach the concept of wealth creation – and the virtues of the capitalist system. For the unions this translated as undermining worker solidarity and union power.

Such diametrically opposed views *of Anglo reflect the divisions of a* polarised society which has yet to find a common loyalty or common goals. The men who run Anglo see the company as an essential wealth creator and catalyst for change. They accept the need for Anglo to strengthen its global presence through a successful takeover by Minorco of Gold Fields. But some of them are distinctly unhappy at the emphasis on de-coupling Minorco from Anglo and its South African connection. What they want to see is a merger which strengthens the Anglo group as a whole but provides technological, financial and other benefits for the South Africa to which they are committed.

Wasserstein's week

■ Joseph Perella, one of the superstars of the Wall Street takeover game, was noticeably not knocking back the champagne at Consolidated Gold Fields' press conference yesterday, but at least he was there to offer expensive last minute advice to his firm's biggest British client. It was even rumoured (wrongly) that Bruce Wasserstein was there as well.

Given that they are advising Philip Morris and Kohlberg Kravis Roberts on a couple of takeover bids worth close to $30bn, and defending the likes of Pillsbury and Macmillan from British predators, it was mildly surprising that even one of them could find time to put in an appearance now that Minorco's bid for Gold Fields has been frozen until after Christmas.

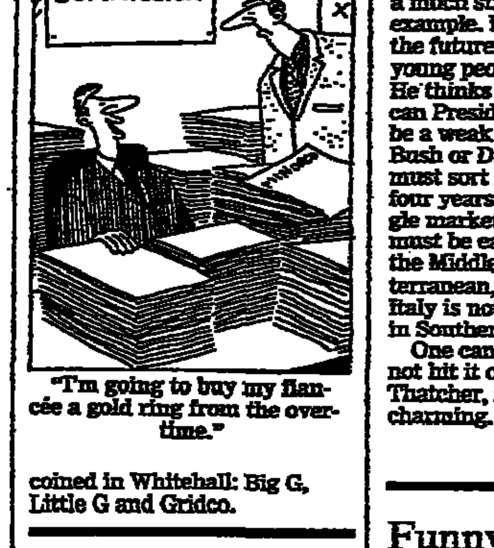
It has been a very good week for Wasserstein, Perella & Co, the Wall Street mergers and acquisition boutique formed just over six months ago, and the proprietors are not shy of advertising the fact. It is just over six months since they quit First Boston and they have already become involved in more than a dozen deals totalling over $50bn, which probably puts them amongst the top five Wall Street firms in the lucrative takeover game.

This meteoric record for a start-up business should help stem some of the criticism that Nomura Securities paid a ridiculously high price for a 20 per cent stake in the enterprise. Indeed the founders are very conscious of the fact that they must be seen to be succeeding with the biggest clients. They have already recruited one of the biggest M & A staffs of any Wall Street investment bank. That explains perhaps why Perella could afford yesterday's luxury of taking a day out of the office to attend Gold Field's thinly disguised celebration party.

OBSERVER

Some mistake

■ With all the foreign investment flooding into Spain, mistakes are bound to happen. But the half page ad for the Austrian Genossenschaftliche Zentralbank AG (GZB) in El Pais yesterday has probably offended potential Spanish clients beyond recovery. "Through rapid decisions always a step ahead," ran the main line. It was in Portuguese.



"I'm going to buy my fiancée a gold ring from the overtime."

Name to come

■ There will be an inauspicious start to this evening's £5m advertising barrage intended to soften up potential investors in the Central Electricity Generating Board.

The Board's £27bn worth of power stations, transmission lines and other assets are to be incorporated into two generating companies and a National Grid company. The ads, to be launched in the commercial break in ITV's News at Ten, were originally intended to unveil the official names of the successor companies, whose appointed chairmen and directors want to get on with establishing their corporate identities. The commercials will be screened without the names, however, because of protracted difficulties in clearing them at Companies House.

The names chosen for the companies are National Power, Power-Gen and National Grid Company. Cecil Parkinson, the Energy Secretary, originally thought that that made them sound like nationalised industries, but gave way. Yet for a little longer the shadow managements will have to make do with the nicknames coined in Whitehall: Big G, Little G and Gridco.

Italian vision

■ All Socialist Parties have problems with trades unions, except perhaps the Italians. So says Gianni De Michelis, the deputy Prime Minister of Italy.

Michelis is a genial intellectual who is only slightly embarrassed by having published a guide to his country's best discothèques during his period in office. He says that when he was writing it, he never expected to reach such a position. He is now the senior socialist member of the Italian coalition, and very optimistic about the future.

The Italian Communists, he claims, are in irreversible decline. Among other factors, they had a problem of being too close to the unions. So had – and have – the Christian Democrats. The Socialists have no such shackles. Michelis says that he has been telling other Socialist leaders – Neil Kinnock and Felipe Gonzalez - how much easier their own problems would be if they were in the same position.

Socialism, he argues, is the wave of the future because it is about rules, and rules are what an increasingly international community demands: a much stronger IMF, for example. Europe is a key to the future as well, because the young people want integration. He thinks that the next American Presidency is bound to be a weak one, whether under Bush or Dukakis, so Europe must sort itself out in the next four years. Apart from the single market, the three priorities must be east-west relations, the Middle East and the Mediterranean, and Latin America. Italy is not much interested in Southern Africa.

One can see that he might not hit it off with Margaret Thatcher, although he is very charming.

Funny business

■ America's cartoonists, one would assume, are almost universally Democrats. Yesterday, however, was supposed to be a strictly non-partisan occasion as more than 100 of them devoted their strips and drawings to the problems of the nation's near 3m homeless.

Barry Zigas of the National Low Income Housing Coalition, which organised the campaign, said that the aim was "to tug at America's heart strings through its funny bones".

Plain speaking

■ Edward Heath is becoming laconic as he grows older. Asked in his interview with Marxism Today whether he sees Thatcherism as an aberration in the history of the Conservative Party, he replies simply: "Yes."

David Thomas reports on Oxford University's attempt to raise £200m over five years

Dreaming spires, aspiring dreams

Oxford University today sets out on a path not trodden by a British university since the war – to tap the private sector for most of the funds needed for the key developments to secure its immediate future.

A special train leaves London's Paddington station this morning for the launch of a fund-raising drive of unprecedented size. The train will take the assembled dignitaries and journalists to Oxford where they will be entertained in the Sheldonian Theatre by Lord Jenkins, the university's Chancellor, and senior dons.

This jamboree is to mark the official start of the Campaign for Oxford. Two years in preparation, it is designed to raise enough money to take Oxford prosperously into the twenty-first century. More than that, it is confirmation that a theme plugged by the Government for the whole of this decade has finally penetrated the most sheltered groves of academia.

Education ministers never tire of urging Britain's universities to rely less on the state and more on the private sector to fund their spiralling research and teaching costs. In the early years of the decade, however, the message was taken to heart by only a handful of newish technological universities, such as Salford and Aston. They had no choice: faced with swingeing cuts in their public grant, they had little alternative to forging closer links with the private sector.

The older, better-heeled universities were slower to react. Many academics worked on the assumption that the cuts were a temporary stumble in the

Oxford's target outstrips the ambition of any British university

onward march of public funding. The continuation of financial stringency in the mid-1980s proved a rude awakening.

Not least in Oxford, where the university is in the middle of a cost-cutting exercise aimed at paring 10.8 per cent off spending in real terms between 1986 and 1990. Extra spending on books was no longer possible, repairs to buildings were cut and over 100 academic posts were frozen or abolished. Famous chairs like the Regius Professorship of Greek were in danger of going unfilled.

The appointment of Dr Henry Drucker early last year to spearhead the Campaign for Oxford showed that the university realised the writing was on the wall. A punchy American, Dr Drucker had drifted into fund-raising while at Edinburgh University – and liked it.

Although from an academic background, Dr Drucker, a political scientist, is nothing if not professional in his role as orchestrator of Oxford's new-found zeal to fill its coffers from private sources. Today's launch is likely to be marked by a clutch of announcements calculated to get the appeal off to the right start.

The university will list the projects which the campaign is destined to fund, so that donors do not feel their money is being sunk into some bottomless pool. More important, Oxford's guests will be told of substantial sums of money which have already been raised, including from some large US foundations, before the official campaign has even started. Dr Drucker regards this as psychologically crucial to convincing Oxford's more than 100,000 alumni, whose addresses are held on a central university computer, that the campaign's goals can be met.

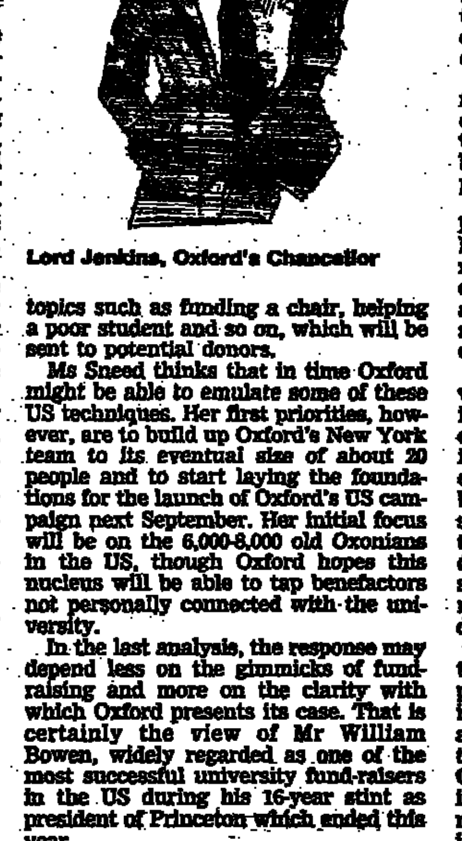
For the university's target – to raise funds of the order of £200m over five years – outstrips the previous ambitions of any British university. A special McKinsey report prepared for the campaign, basing its findings on university fund-raising in the US and on other charitable giving in the UK, reckoned this figure was within the grasp of a professionally-run Oxford campaign.

The Oxford target would certainly be nothing special in the US, where individuals, companies and charitable foundations are used to responding to academic appeals. University fund-raising in the US is very much a science, according to Ms Helen Sneed, appointed last week to head Oxford's new fund-raising office in New York after a lifetime raising money for the Democratic Party and for US theatre companies. Last year, for instance, Columbia – with by no means the most active alumni association among the Ivy League universities – raised just under $106m from private sources. And, post-crash, that was slightly down on the previous year.

Columbia has about 150 fund-raising staff. They are always on the look-out for new ways to tap the wallets and purses of charity-conscious Americans because "there's a lot of competition for the philanthropic dollar," as Mr Norman Fink, Columbia's deputy vice-president for development and alumni relations, puts it.

Thus, Columbia has a "recognition programme" providing a full menu of ways in which donations can be acknowledged. Around $1.5m is enough to attach an individual's or company's name to a chair; $100,000 should be enough to fund a scholarship programme for a student from a low income background.

Competitions are run among Columbia's graduates to see which graduation-year can raise the most money. But still Mr Fink is not satisfied: he is now considering commissioning videos on



Lord Jenkins, Oxford's Chancellor

topics such as funding a chair, helping a poor student and so on, which will be sent to potential donors.

Ms Sneed thinks that in time Oxford might be able to emulate some of these US techniques. Her first priorities, however, are to build up Oxford's New York team to its eventual size of about 20 people and to start laying the foundations for the launch of Oxford's US campaign next September. Her initial focus will be on the 6,000-8,000 old Oxonians in the US, though Oxford hopes this nucleus will be able to tap benefactors not personally connected with the university.

In the last analysis, the response may depend less on the gimmicks of fund-raising and more on the clarity with which Oxford presents its case. That is certainly the view of Mr William Bowen, widely regarded as one of the most successful university fund-raisers in the US during his 16-year stint as president of Princeton which ended this year.

Mr Bowen, now president of the Mellon Foundation says: "What was fundamental was the pleasure and satisfaction you give to people who participate in something as important as the ongoing success of a great world university."

Oxford too is trying to tread the delicate path between giving benefactors something in return for their money and appealing to more disinterested qualities. But it is also trying to articulate a vision of Oxford as a world-class university to which people should be proud to donate.

The likelihood is, however, that the appeal will affect Oxford in ways which are now only barely understood. The relationship between the fiercely independent Oxford colleges and the university is just one aspect of Oxford life which will probably evolve as a result of the stronger profile of the central university.

Many of the colleges anticipated the university by launching their own appeals in the 1980s. Magdalen, one of the older and more prestigious colleges, last year completed a 10-year £4.5m appeal which allowed it to renovate its tower and overhaul some of its older buildings. Keble, a relative newcomer to Oxford as a nineteenth century foundation, is in the middle of an appeal aimed at raising £5m by 1992.

All Oxford's colleges have co-operated with the university's efforts by handing over their mailing lists of old members. Yet questions are already being raised about the division of labour between the university and the colleges. At Magdalen, for instance, Mr Keith Wills, the bursar, thinks it might be sensible in the medium term for the university to concentrate on companies, while the colleges focus on Oxford graduates.

Meanwhile, Keble has begun to face the question which might increasingly occupy the university – how to ensure that it can appeal to potential business benefactors without sacrificing its independence.

Under Sir Christopher Ball, Keble's head until this year, the college articulated a future giving greater prominence to disciplines like engineering, computer studies, Japanese and management studies – precisely the sort of subjects likely to appeal to business donors.

Sir Christopher envisages a time when companies will be drawn more into Oxford life, by seconding their executives as visiting fellows, by sending their employees to be students at colleges which they have endowed and by offering their advice to the university's senior dons. Yet he also believes that Oxford can maintain its independence by continuing to insist that decisions are made on academic grounds – refusing, for instance, to admit any student except on merit.

These points of principle will begin to trouble the university only if its campaign is successful. Oxford is certainly investing enough, with a 30-strong team at its Oxford headquarters in addition to its New York office. Dr Drucker says Oxford will raise £10 for every £1 spent, implying expenditure of about £20m to raise £200m. "That is a very good investment," Dr Drucker insists. The next five years will show whether he is right.

The new Financial Times printing plant at East India Dock, London

A letter to FT readers from the Editor

The official opening of our new printing plant in east London last night marks the start of a new era for the Financial Times. At the end of our first hundred years as a business, we have broken free from the constraints of old production methods and old technology and are able to build an improved service to our readers and advertisers.

From our new presses, we can offer larger newspapers and much better reproduction – compare the legibility of our London share price page, or the quality of our photographs, with what went before. We can also provide fuller reporting of subject areas and regions of the world which are of growing interest to our readers.

The replacement of old-fashioned typesetting by journalists entering their copy directly into computer terminals, the switch from letterpress to web-offset presses in the new Docklands plant, the introduction of manning levels and industrial relations practices appropriate to the new technology – all this does more than simply improve each issue of the Financial Times. The changes also strengthen the newspaper as a business and give us a production base on which to build a stronger market position both in the UK and overseas.

At the same time, we have added a third printing centre, in France, to the existing operations in West Germany and the US, to ensure fast and widespread distribution of our international edition.

The new production processes have given us the opportunity to refresh the contents and appearance of the newspaper. Behind everything that we have done lies the desire to offer readers news and feature coverage that is of direct and practical relevance to them, and to present it in a way that is clear, accessible and easy to absorb. Changing times – most noticeable of all, the progressive internationalisation of markets for goods and services – alter the priorities of our readers. It is the FT's job to keep in step with them.

As a result, we have progressively added to the extent and depth of our international coverage, covering stories that are as significant to people in Glasgow as in Ghent, in Rochester, Kent as in Rochester, New York. A steel industry executive in the UK has to be familiar with events in Brussels, just as a City of London fund manager needs to know what is driving the stock market in Tokyo.

In the recent past, we have been hampered in extending our coverage by strict limits on the number of pages we could print. The result was that we were not able to cover developing issues – ranging from options markets to education – in the depth that we would have liked.

The same limitations have obliged us in recent years to turn away advertising. This was very irritating for our advertisers and damaging for all our customers, since it meant forgoing revenues that could otherwise have been used to improve the quality of the newspaper.

In our new format, we have room to breathe. The most visible change, for UK readers, has been the move to two sections. (The international edition has been in two sections since it was launched in 1979.) This switch enables us to produce the larger papers, up to 56 pages and beyond, which we now need, and which could not be produced – or easily handled by readers – in a single section.

Some UK readers have found the two sections awkward, especially on crowded trains. We hope to persuade them, over time, that this disadvantage is more than offset by the fuller and better editorial coverage both of UK and international stories which the move to two sections makes possible. The second section also allows important corporate and market stories and the stock market reports to be given greater prominence and accessibility.

The FT, more than most newspapers, relies on the support of many different groups of readers, each of which has particular – and distinctive – reasons for buying the newspaper. It is vital that we do not jeopardise their interests in our efforts to develop the newspaper. So it is worth emphasising that we are just as committed to providing the best and most comprehensive coverage of UK industries, companies and markets as at any time in our first one hundred years. Our goal now is to continue to grow as a business, and to maintain and improve the quality and depth of our reporting.

Geoffrey Owen

LETTERS

Ulster's problem is political isolation

From Mr P.T. Mangnall.

Sir, Your editorial on Northern Ireland (October 20) argues that "anyone who opposes the agreement ought to consider how much worse the situation might be today if the Irish authorities were not trying to block the flow of weapons."

As such it firmly places the Republic of Ireland in a category more commonly associated with Libya and Iran: a state which seeks to further its political aims by its ability to exercise control over terrorism.

The arguments against dealing on this basis do not differ in principle from deals which relate to arms for hostages; it is immoral in concept, unworkable in practice – and encourages the terrorist to even greater excesses.

You are on more certain ground when you discuss the need to end alienation and ameliorate the depth of deprivation in the Province. The reality is, however, that political isolation – and thus inadequate representation of genuine needs – is an inevitable consequence of central Government's insistence that the institutions and parties integral to our system of parliamentary democracy are denied to Northern Ireland.

The only way to ensure that sectarian divisions are broken down, and genuinely representative government established, is through the introduction of the national mainland parties.

P.T. Mangnall,
74 Chiltern Road,
Sutton, Surrey.

VAT on sponsored university chairs

From Mr Bernard Cox.

Sir, The decision, widely reported last week, to demand VAT from commercial organisations on sums donated to universities is the thin end of a nasty wedge.

If this is allowed there is no telling where the ruling will stop. It is only a short step to extending it to financial support from professional bodies and charities.

CIMA (the Chartered Institute of Management Accountants) is required by its Royal Charter to encourage research and, in common with the other leading UK professional accountancy bodies, directly supports research at a number of universities.

However, alone among the UK professional accountancy bodies, CIMA also supports university chairs at the London School of Economics and at Loughborough.

These two forms of support – research grants and sponsorship of chairs – might remotely be claimed as securing an advertising or promotional benefit for the institute, and thus its members. More importantly, it is the promotion of a discipline essential for the economic wealth of the UK.

This imposition of VAT must be stopped in its tracks. A way forward would be for the Chancellor to exempt all gifts of this kind, through primary legislation.

Bernard Cox,
The Chartered Institute of Management Accountants,
63 Portland Place, W1

London Life merger will further reduce reserves

From Mr Stephen Walkley.

Sir, Mrs Nicol-Gent (Letters, October 24) is too kind to the board of London Life in describing the proposed merger with Australian Mutual Provident (AMP) as a sell-out. AMP is giving £15m to the London Life fund, but the board of London Life has proposed a special bonus to with-profit policyholders which will cost, I estimate, over £20m.

Though much was made in the merger document of the £15m from AMP and the size of the bonus for individual policies, no estimate of the total cost of this bonus was given. Thus the result of the merger will be to reduce London Life reserves further.

It is presumably from these reserves that the new AMP-run London Life proposes to finance its "dash for growth" – a continuation of the recent policy of London Life which has caused the present situation.

I fear that a policy of rapid growth will significantly worsen the ratio between premium income and expenses of the separate London Life sub fund within AMP, and thus damage existing London Life policyholders' long-term bonus expectations. AMP's existing UK fund operates on an expense ratio of over 40 per cent (another figure not in the merger document) compared to London Life's 18 per cent; historically it has a poor bonus record. It was pointed out at the meetings that some policyholders consider even 18 per cent an unacceptably high level for a non-commission paying office.

There remains the question of why so many proxies in favour of the merger were returned. It may be that members were convinced by the unanimous recommendation of the board. However, it emerged at the meeting that since the last AGM a number of board members had resigned. The merger document failed to include a list of current board members. Neither did did it give details of any service contracts that members of the present board had with London Life.

Mr Ian Salmon of AMP, who is also a director of London Life, said on the BBC's *Money Box* radio programme that he felt that sufficient information about AMP had been given to London Life policyholders, and that if anyone had wanted more then he would have been glad to give it. The only contact address given in the merger document for AMP was a PO box in Sydney, Australia.

All in all, a sorry state of affairs – and serious damage seems to have been done to London Life, which may well reduce the expected returns from our policies, whatever the outcome of the December 5 court hearing which will decide if the merger can take place. At the court hearing not only members (with-profit policyholders), but anyone with an interest (employees, unit holders and so on) can turn up to make their point.

I hope a large enough court room has been booked.

Stephen Walkley,
Hythe House,
Woodmarket,
Lutterworth, Leicestershire.

Marching into trouble

From Mr Colin Baskett.

Sir, Mr McEvoy (Letters, October 15) is wrong to claim that Northern Ireland's civil rights grievances are universally recognised to have been justified. They formed only one side of the coin, but – as it has been said – "half truths are particularly damaging; like half bricks, they carry further."

In any case, what matters in assessing the likely consequences of a march in Ireland is not why it is being held, but where. The Londonderry march, whose 20th anniversary Mr McEvoy refers to, was banned because the route it proposed to follow was likely to provoke a serious disturbance. Few would question that assessment today.

Colin Baskett,
43 South Drive,
Heswall, Merseyside

Elitism

From Dr Paul Marett.

Sir, Of course universities are elitist (Letters, October 14): it will be a sad day if they ever cease to be a home to the intellectual elite of the country.

Paul Marett,
Department of Library and Information Studies,
Loughborough University,
Leicester.

After the storm

From Mr Norman Marcus.

Sir, The very narrow (170 to 165) "show-of-hands" approval of the AMP merger may have been more indicative of informed policy holders than the card vote result. If London Life management staff had desisted from voting – a suggestion made from the floor – the merger would almost certainly have been rejected.

The marketing strategies of non-commission life insurance companies, and the essential high calibre of their sales forces in a competitive environment, get insufficient attention. I suggest that the role for the "mutual" has increased – greater potential rather than less.

Norman Marcus,
3-6 Alfred Place, WC1

FINANCIAL TIMES
Wednesday October 26 1988

China's airlines fail to get off the ground

Hampered by inertia, improvements have been slow to take off, writes Lynne Curry

EARLIER this year, a Pakistan International Airlines aircraft was preparing for a routine flight from Peking to Karachi. With the passengers on board, the pilot radioed the Peking airport control tower for clearance to take off. To his horror, he discovered that no one was there.

Indeed, with the doors to the aircraft closed, the Chinese ground staff had retracted and locked the boarding ramp, and had also vanished.

The reason is that Peking airport officially closes at midnight.

Although the Civil Aviation Administration of China (CAAC) formally apologised after the Pakistan airline lodged a strong protest, this incident remains one of the more appalling examples of the poor service and inefficient management for which the Chinese aviation industry has become known.

Hampered by bureaucracy, inertia, and a lack of investment, CAAC's efforts at improvement have so far met with little success, according to aviation sources and the Chinese themselves.

"CAAC is an important window for our country," the official People's Daily recently quoted a high-ranking CAAC official. "But its reputation is not good. It makes our country lose face, and gives reform a black eye. From the top official to the bottom, each one should be truly humiliated."

Among the most exasperating problems facing passengers on CAAC is the airline's reservation system. Buying a round-trip ticket is impossible, with travellers allowed to make return bookings only after reaching their outgoing destinations.

On many occasions, these tickets are sold out, forcing hapless passengers to wait, often for days, for space to become available.

Only by purchasing round-trip tickets through a Chinese travel agency which charges a commission, or by arranging with a contact already in the city to buy the return ticket, can these problems be avoided.

The attitude of CAAC staff is equally aggravating to travellers.

"It has been a problem of long standing," the official People's Daily recently wrote, "that our CAAC airline is not punctual and has a bad attitude towards the treatment of passengers."

Foreign airline sources also noted that baggage handlers have often delayed unloading baggage because of snow, rain, dinner, or tea breaks.

Approaching Hong Kong, CAAC passengers can expect a service not found at Peking

Even more serious, CAAC has come under repeated criticism for an alleged lack of attention to safety measures, both on the ground and in the air.

One angry passenger wrote to the official English-language China Daily after a recent flight, "no demonstration was made of safety features, and passengers were allowed to have baggage around their feet..."

"No announcement was made about the location of exit doors or other equipment at any time before or during the flight." Aviation officials say three known accidents have occurred this year, and possibly others have not been reported.

Although CAAC has competent, foreign-trained mechanics, aviation sources said many were unable to keep up with changing technology once they return to China. CAAC also lacks a large pool of experienced pilots from which to hire. It trains some in-house but, unlike other countries, the Chinese Air Force does not readily allow its pilots to work in the civilian sector, although former military pilots do fly CAAC aircraft. Despite these problems, CAAC is believed to be making a profit.

There are few incentives for airline employees to improve their performance. "The worker who drinks tea on the job gets the same pay as the worker who is hard working," one airline source said, noting that firing of CAAC employees is virtually unheard of.

CAAC's top-level management is reported to be keenly aware of these problems, according to officials in the aviation industry, but political and bureaucratic reasons prevent it from making serious improvements. As a bureaucratic super-agency, CAAC not only runs the airline, it also makes policy, determines routes, enforces regulations and is in charge of airport administration, equipment and aircraft purchases, and training of technical personnel.

Moreover, the Chinese Air Force controls all of China's air space and CAAC is allowed to use only a limited number of narrow commercial corridors. This situation is tailor-made for an accident, one airline official said, adding that the military frequently crosses into commercial corridors, compounding the danger of an in-flight collision.

"They need more commercial lanes," another observer noted. "Unless the Government expands the areas through which CAAC can fly, they can't add more flights."

To improve efficiency and management, CAAC last year underwent a huge reorganisation, with its operations broken up into six regional airlines, airport authorities and regional administrative organisations.

So far, there are three operating airlines: Air China out of Peking, China Eastern from Shanghai, and China Southwestern from Chengdu in Sichuan Province. The remaining three will fly from Guangzhou, Xian and Shenyang.

Aviation officials say that despite the break-up, CAAC still maintains overall control, giving the new airlines little authority to make independent decisions. "In theory, CAAC is trying to create commercial airlines, improve service and garner more revenue," one aviation observer said, "but CAAC in general still holds the reins".

Lawson says interest rates will stay high

By Peter Riddell, Political Editor, in London

MR Nigel Lawson, Britain's Chancellor of the Exchequer, yesterday sought to reassure jittery financial markets about the Government's intention to keep interest rates high for as long as necessary to control inflation, and firmly to resist devaluation.

Adding a new emphasis, he told Parliament that this aim would require MO, the narrowly-defined money supply, "to be heading firmly back towards the target range I set at the time of the Budget."

This passage represents a public reassertion of monetary targets after a period when they have been played down compared with the aim of stable exchange rates.

The target for MO, mainly comprising notes and coin, is an annual growth rate of between 1 and 5 per cent. It is currently rising at an annual rate of 8.1 per cent, although officials say that, after adjusting for the distorting impact of the recent postal dispute, the underlying rate is about 7.5 per cent. Getting MO back within the target implies that interest rates will remain high for some time.

Mr Lawson was speaking in yesterday's House of Commons debate on the economy, when he predicted that, despite a slowdown next year, economic growth would still be above 2 per cent. He faced a powerful attack from Mr Gordon Brown, the opposition Labour Party's spokesman, who highlighted alleged imbalances in the economy and the expected freezing of child benefit. Earlier, Mr Neil Kinnock, the Labour leader, had been forced withdraw a remark that Mrs Margaret Thatcher, the Prime Minister, was "a cheat."

A Government announcement will be made to Parliament tomorrow on the annual uprating of social security payments, and Mr Lawson's autumn economic statement looks increasingly likely to be next Tuesday, November 1.

Mr Lawson sought to clarify Government policy following nervousness in financial markets that he had been insufficiently explicit in his Mansion House speech last Thursday.

Recognising this concern, he said, "as I have repeated on innumerable occasions over the past two years – but see no need to repeat in every single speech I ever make – the battle against inflation means that there can be no question of bailing out businesses who fail to curb their costs, and in particular their wage costs, by permitting the exchange rate to depreciate."

CBI survey, Page 7; stock markets and currency reports, Section 2; Lex, Page 20.

Falling dollar 'could blight EC single market'

By William Dawkins in Brussels

EUROPE'S economic growth has not faltered significantly since last October's stock market crash, but deep imbalances between the US and Europe still threaten economic stability, warns a study published yesterday by a Brussels-based policy research group.

The paper, produced for the Centre for European Policy Studies, predicts that the US dollar could fall by a further 10 to 20 per cent in the next few years.

This will hit European Community exports to the US and hence impose a drag on the EC's growth, so that it will fail to reap the full benefits of its campaign to achieve a free single market by 1992, says the study by Mr Charles Bean, a reader at the London School of Economics and Political Science.

Mr Bean argues that whatever the result of next month's US presidential election, the next Washington administration will be under pressure to raise taxes to reduce the budget deficit. However, this will have only a minimal effect on the US current account deficit, he says.

"Trade volumes and the current account have been much slower to respond to the fall of the dollar than might have been expected and consequently a further fall in the real value of the dollar may well be required," says his paper.

Mr Bean also warns that France's anxiety over its own trade deficit and British and West German worries over the extent of their respective public borrowing might worsen the impact of the dollar's fall by encouraging those governments to follow too-restrictive monetary and fiscal policies. "If this occurs, then European recovery will be stopped in its tracks," he adds.

Europe After the Crash: Economic Policy in an Era of Adjustment, Charles Bean, Bfr420 from Ceps, Rue Ducale 33, B-1000, Brussels, Belgium.

Bonn may ease rules on arms finance

By David Goodhart in Bonn

THE WEST German Government appears to be relaxing its opposition to the provision of credit finance for arms sales outside Nato countries under pressure from its partners, especially the British, in collaborative projects.

Early next month Kreditanstalt für Wiederaufbau (KfW), the state-owned bank, is expected to announce that it will be leading a consortium of West German banks in providing credit finance for the country's contribution to the eight Tornado fighter-bombers recently sold by Britain to Jordan. KfW is reported to be providing DM48m ($27m) out of the West German contribution of DM370m.

West Germany has tighter rules than most Nato countries about sales outside the Nato area and the state credit finance body, Hermes, is not allowed to support arms sales. However, partners in the increasing number of collaborative arms projects have accused the West Germans of hypocrisy in taking an increasingly relaxed view of non-Nato arms sales but then baulking at providing the financial cover.

The apparent decision to allow a state-owned bank – with the finance and economics ministers on its main board – to lead a credit finance package in a sensitive area is being seen as a positive sign by partners.

Aside from the Tornado, which involves the UK, West Germany and Italy, there are several other joint projects being developed such as the multi-launcher rocket system (West Germany, France and the UK), the Eurofighter (Italy, Spain, the UK and West Germany) and Trigat (the anti-tank missile system

Many of these expensive projects are viable only with extensive non-Nato sales and while West Germany's partners have accepted the country's unwillingness to promote those sales, there has been growing irritation about refusal to bear a fair share of the credit risk.

In the case of the Tornadoes, which are being assembled by British Aerospace, the UK is expected to provide 68 per cent of the credit, West Germany 23 per cent and Italy 9 per cent.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	22	72	Dubrovnik	S	22	72	Malta	S	23	73	Rhodes	R	21	70
Algiers	-	—	—	Edinburgh	C	12	54	Manchester	R	14	57	Rio de J'o	-	—	—
Amsterdam	C	14	57	Faro	S	24	75	Manila	R	26	79	Rome	F	24	75
Athens	C	20	68	Florence	S	17	63	Melbourne	S	24	75	Salzburg	C	12	54
Bahrain	F	33	90	Frankfurt	C	13	55	Mexico City	F	25	77	San Francisco	C	15	59
Bangkok	F	33	91	Funchal	F	22	72	Miami	C	28	82	Seoul	F	20	68
Barcelona	F	22	72	Geneva	F	17	63	Milan	C	13	55	Singapore	F	32	90
Beirut	F	27	81	Gibraltar	S	21	70	Montreal	G	10	50	Stockholm	F	00	32
Belfast	C	14	57	Glasgow	C	12	54	Moscow	Sn	05	41	Strasbourg	F	15	59
Belgrade	F	14	57	Guernsey	C	15	59	Munich	C	13	55	Sydney	C	21	70
Berlin	F	06	43	Helsinki	F	00	32	Nairobi	C	26	79	Taipei	R	24	75
Biarritz	S	23	73	H. Kong	F	29	84	Naples	S	23	73	Tangier	S	26	79
Bombay	S	32	90	Innsbruck	F	14	57	Nassau	F	30	86	Tel Aviv	S	25	77
Bordeaux	S	19	66	Inverness	C	10	50	New Delhi	F	35	95	Tenerife	F	25	77
Brussels	F	18	64	Islamabad	F	31	88	New York	F	17	63	Tokyo	C	18	64
Budapest	C	11	52	Istanbul	C	17	63	Nice	S	19	66	Toronto	C	08	46
B. Aires	R	20	68	Jakarta	C	32	90	Nicosia	F	29	84	Tunis	F	25	77
Cairo	F	30	86	Jersey	C	16	61	Oporto	F	25	77	Valencia	S	23	73
Cape Town	F	16	61	Jo'burg	F	24	75	Oslo	F	04	39	Venice	S	18	64
Caracas	F	27	81	Lima	C	20	68	Paris	F	18	64	Vienna	C	12	54
Casablanca	S	31	88	Lisbon	S	23	73	Peking	S	20	68	Warsaw	C	10	50
Chicago	F	04	40	London	F	17	63	Prague	R	07	45	Washington	S	06	43
Cologne	F	13	55	Los Angeles	C	24	75	Reykjavik	F	05	41	Zurich	C	11	52
Copenhagen	S	04	39	Luxembourg	F	13	55								
Corfu	S	22	72	Madrid	S	18	64								
Dallas	-	15	59	Majorca	S	23	73								
Dublin	H	14	57	Malaga	S	22	72								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Italians in CAP attack

EUROPE'S Common Agricultural Policy was described as "completely wrong" and "an example of what could be Fortress Europe" by the Italian Deputy Prime Minister, Mr Gianni de Michelis, said in London yesterday. He was also sharply critical of the Community's current negotiating position on the Multifibre Agreement.

Europe would have to make concessions in the current GATT round not only to the US but to Third World countries, Mr de Michelis said after a talk to the Royal Institute of International Affairs.

"What can we give to Algeria and Morocco if we are not prepared to do something on agriculture and textiles?" he asked. The need for such concessions might be difficult to explain to rural voters, especially in Italy and other southern European countries, but it was necessary to do so because otherwise they would face even greater problems caused by social and political upheaval on the other side of the Mediterranean.

Curfew is extended in southern Sri Lanka

By Mervyn De Silva in Colombo

SRI LANKAN authorities are extending a curfew imposed on the southern parts of the country and several other districts, despite lifting it in the capital, Colombo.

The 18-hour curfew in Colombo and several suburban towns ended yesterday evening without major incident. Throughout Monday night, state radio warned that the army had orders to "shoot on sight". No serious incidents were reported from the deep south, the stronghold of the militant Sinhalese JVP. The south was placed under a 30-hour curfew and the army, with helicopter support, controlled all roads.

The curfew followed a bomb attack on a city office of the ruling UNP. Eight party members were killed and 42 injured. The Government blamed Sinhalese "subversives", its code word for the JVP, which has been conducting a "patriotic war" against President Jayawardene's 11-year-old Administration after it signed a peace accord with India.

The Jayawardene-Gandhi accord grants regional autonomy for a trial one-year period in the Tamil north and the ethnically mixed east. The JVP brands the accord a betrayal of majority Sinhalese interests and a surrender of sovereignty to India, which has a 60,000-strong peace-keeping force in the Tamil areas.

An equally violent critic of the pact is the main opposition SLFP party led by Mrs S. Bandaranaike, a former Prime Minister. However Mrs Bandaranaike, who is challenging Mr R. Premadasa, the Prime Minister, at the December 19 presidential election, rejects the UNP charge that her party is secretly helping the JVP's spectacular campaign of terror, sabotage and destabilisation.

In the past year, nearly 500 UNP stalwarts, Marxist supporters of the accord, policemen, soldiers and state officials have been killed. Last month's victims included a Cabinet minister. Twelve thousand schools and seven university campuses – centres of prolonged unrest – remain closed after police shot three students dead.

The JVP's lightning strikes keep bringing life in Colombo and many towns across the island to a virtual standstill. JVP reprisals against shopkeepers who do not obey its orders have created a climate of fear.

India may expect the winner of the presidential contest to take a more sober line the morning after his or her victory. Having raised Sinhalese passions, this may not be that easy, especially with the JVP ready to shout "traitor."

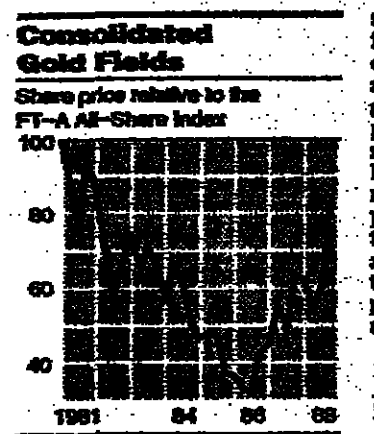
THE LEX COLUMN

A stay of execution for Gold Fields

At the end of round one in Britain's biggest takeover battle, Consolidated Gold Fields has emerged as the clear winner. But it would be dangerous to assume that just because it has snatched a surprise victory, its long-term independence is assured. The strength of the US court injunction against the Minorco bid has yet to be tested, the results of the DTI inspectors' report into insider dealing in Gold Fields' shares may still emerge long after the battle is over, and the grounds for referring the bid to the MMC should not deter a determined predator unless it really does have something to hide.

Neither the Government nor the Takeover Panel emerges from yesterday's events with much credit. The Government has clearly had to bend over backwards to find a reason to halt the bid temporarily, in order to give its investigations a chance to find out whether there is another embarrassing scandal out there. Meanwhile, by refusing to halt the takeover clock, the Panel has highlighted the problems of trying to operate a non-statutory body in an increasingly legalistic environment. Its case for sticking to the principles of the Code may be well argued, but it may not carry quite the same weight outside the narrow confines of the City of London.

Given that titanium and zircon contribute less than 3 per cent of Gold Fields' profits, a little fine tuning in Minorco's constantly changing corporate plan for Gold Fields should be enough to satisfy the MMC. However, whether its South African parents will be prepared to endure official scrutiny remains an open question; and even though its credibility would be badly dented if it bows out now, a friendly approach to Charter Consolidated might be an easier way of satisfying its obvious ambitions. As for Gold Fields, it badly needs a convincing explanation, ahead of next week's annual meeting, why its desire to remain independent should carry on being gratified.



Sterling

Part two of the Mansion House speech went off well enough yesterday, the only pity being that it was not harnessed to the first bit. Mr Lawson's reiteration of the importance of bringing down inflation at all costs seems to have stopped the fall in the pound (at least until Thursday's trade figures give it something fresh to think about). However, it has not made amends for the omissions at Mansion House, with a net cost to the pound of about 4 pfennigs. While the Chancellor of the Exchequer clearly feels impatience at being required to say the same thing every time he opens his mouth, he should remember the main reason the foreign exchange market needs such constant reassurance is that interest rate policy this year has been nothing if not changeable.

Banking interest

Of the two evils – losing current account customers and paying to keep them – Lloyds is no doubt about which is the greater. Its new "classic" account announced yesterday, shows how hard it is prepared to fight the building societies; this is no half-hearted effort to extend existing high interest chequing accounts, but an offer to pay interest right across the board.

This time, the other banks cannot afford to dally, as they did over Midland's introduction of free banking two years ago. The current accounts are the most valuable part of their business, not just because they have proved a wonderfully cheap source of money, but because without them the task of selling all those fancy personal finance products – which was what last week's Abbey Life deal is all about – becomes a virtual impossibility.

The cost of servicing some £36bn of current account balances will not be small, however. While the exact extent of the damage will depend on the speed with which consumers switch, and the type of products offered by the others, a 10 per cent fall in earnings overall does not seem unduly alarmist. Moreover, the effect could be still worse when interest rates fall, as banks may find it more difficult to cut deposit rates by a similar amount. Given such a grim picture for earnings, the 3 per cent fall in the banks' share prices yesterday might have appeared somewhat relaxed. However, an average p/e of 5 for the sector shows that a good deal of bad news is already discounted; alternatively it shows that yields of 7 per cent or so are hard to argue with.

Beazer

Despite everything, there is a lingering fascination about Beazer. In market terms, the story looks sadly simple: the huge rise in the shares until two years ago, then the 35 per cent relative decline. Earnings growth is certainly slowing, and the fearsomely ambitious Koppers acquisition has alarmed the more timid. But now, we are told, it will be different. Koppers will be decently consolidated, and refinanced at commercial rather than junk rates; gearing still stood at 100 per cent, and there will be no issue of paper – in the top company, at any rate. An era of empire-building is over, and the focus is now on earnings per share.

But, there was a familiar sense, at yesterday's results presentation, of awkward patches being smoothed over. The good things which are to happen to Koppers were also to happen, two years ago, to Gifford-Hill; and though Beazer can scarcely be blamed for the slump in the Texas economy, that acquisition is clearly having a rough time. In particular, too, the Kier subsidiary is exceptional in seeing its trading profits fall in the current boom in UK housebuilding, where the 76 per cent rise in profits is a good average for the sector, it is not encouraging to hear that this year's land purchases have been cut from a projected £200m to almost nothing. If this is due to cash flow constraints, the problem is being postponed; and if it is due to a downturn in a business which ought to produce some two thirds of this year's earnings, it is more worrying still.

Arguably, all this is in the price; at 185p, the shares are on seven times this year's earnings, around the middle of the sector range. It is perfectly possible that the market has Beazer all wrong, and will one day stand condemned for lack of imagination. But not yet awhile.

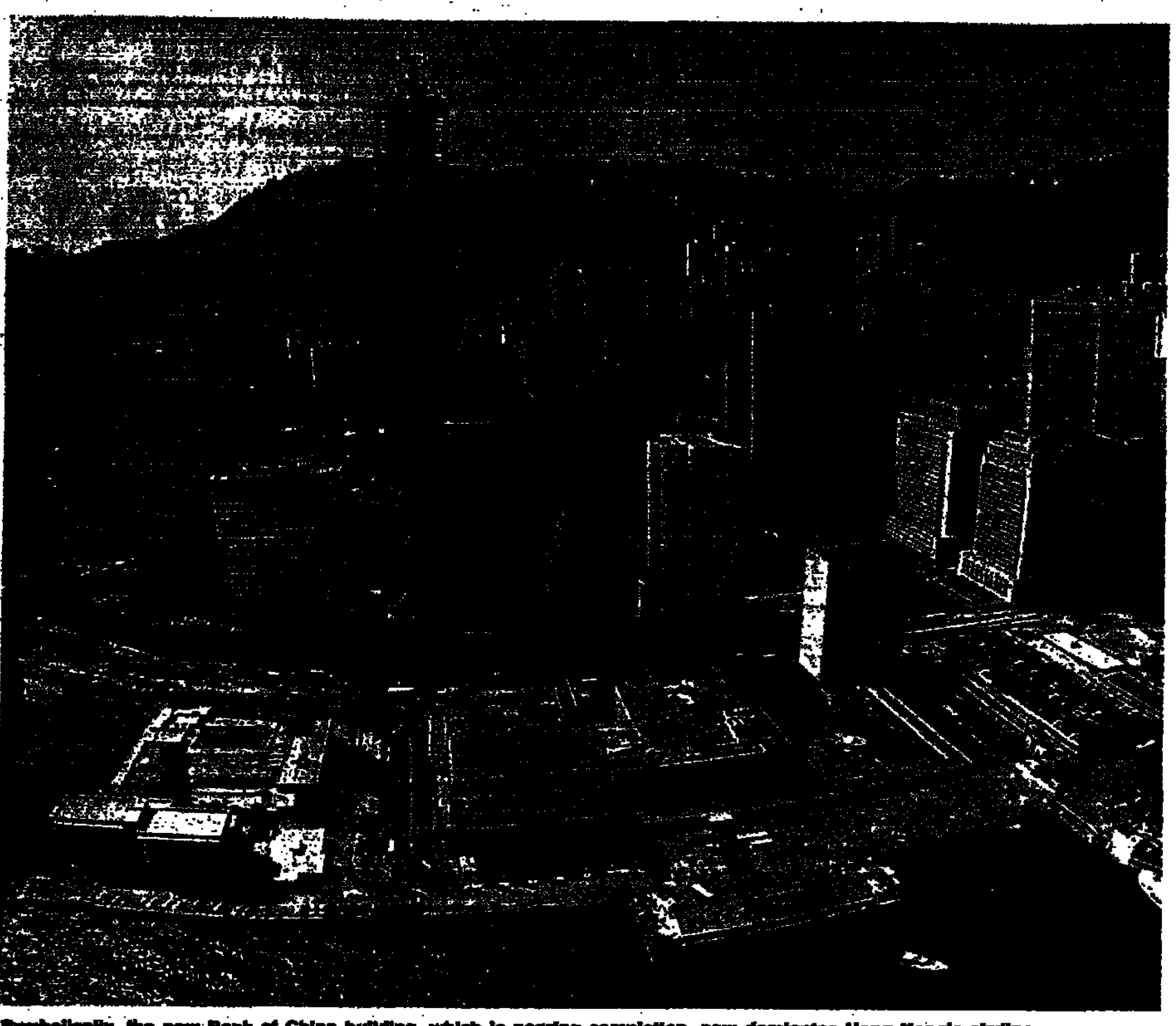
SECTION III

FINANCIAL TIMES SURVEY

HONG KONG
as a Financial Centre

CONTENTS

Regulation; Economy	2-3	Futures Exchange; Banking	6-8
Stock Exchange changes	4		
China's corporate entities	5	Photographs by Glyn Genin	



Symbolically, the new Bank of China building, which is nearing completion, now dominates Hong Kong's skyline

A good deal of the damage has been patched up following the abrupt encounter with disaster just over a year ago. The challenge remains, however, to bring about a fundamental change of approach against a delicate political background, writes Barry Riley

A question of survival

WHEN A government is brave enough to pick a fight with the legal profession it must have a very good reason.

The proposal by the Hong Kong Government that foreign law firms should be permitted to employ locally-qualified lawyers, and thereby carry on a domestic as well as an international practice, has aroused the fury of Hong Kong's solicitors. Lawyers in Hong Kong, as elsewhere the world over, insist upon a local monopoly – strictly in the interests of clients, of course.

Although the Government's attempts to clean up the activities of the Stock Exchange have understandably captured the headlines, in some respects the plan to open up the legal profession emphasises even more clearly the urgent priority to create a strong, international financial centre.

Even in the past Hong Kong has profited from its openness compared with other South East Asian financial capitals. Seoul and Taipei have been crippled, from the international point of view, by foreign exchange controls and a general compulsion to look inwards. Tokyo has been held back by convoluted regulations and sheer high costs. Singapore has lost through political over-sensitivity much of what it has gained through enterprise and trading skills.

All this has left Hong Kong with plenty of scope for developing a role as an offshore booking centre for Japanese financial institutions, or for acting as a staging post for transactions between China and Taiwan, two countries which are still extremely sensitive about dealing directly with each other.

Some of this is changing, however. The barriers are slowly coming down in Korea and Taiwan. Little by little, Japan is deregulating. Such centres could begin to press home the advantages given to them by the weight of funds generated by the successful economies to which they are attached. Hong Kong, in contrast, is backed by only a small domestic economy and is further disadvantaged by the political uncertainty attached to the change of sovereignty in 1997. It must try harder.

Yet Hong Kong may already have endured its severest test. It was just over a year ago that a surging Stock Exchange, and a Futures Exchange that was suddenly doing immense business in a single contract, abruptly encountered disaster. The exchanges failed to open on the day after Black Monday, October 19, and stayed closed for four days while attempts were made to avoid a huge futures market insolvency.

A lifeboat operation eventually bailed out the futures market, but the Government was forced to adopt an unaccustomed hands-on approach. It sent in investigators to probe the affairs of the exchanges. They discovered a multiplicity of conflicts of interest, and a shambolic absence of professionalism. At the same time, police investigations that had begun a month before the collapse led to the discovery of alleged corruption inside the Stock Exchange. A wave of arrests of top Stock Exchange officials followed.

It gave a severe jolt to the authorities. The Government had promised in 1984, through the Joint Declaration with China on the territory's future, to develop Hong Kong as an international financial centre. Hong Kong's ability to channel capital to the mainland and to provide sophisticated financial services had seemed to offer its best chance of political survival after 1997. But abruptly its reputation was in tatters.

Twelve months later a good deal of the damage has been patched up. A new regime is installed at the Stock Exchange and the Territory's financial markets are moving closer to the mainstream of financial regulation. A new Securities and Futures Commission is due to be set up early next year, not as powerful a body as the US Securities and Exchange Commission or the UK Securities and Investments Board, but a sharper-toothed watchdog than has been seen before anywhere near China's southern coast.

The stakes are high. Unless Hong Kong's financial markets change they are unlikely to survive the transition in 1997. Yet it will still be necessary to adopt a flexible line because unless the essentially oriental nature of the securities market is taken account of, a wedge may be driven between the market and the Hong Kong corporate sector.

Hong Kong listed companies are typically controlled by families who help to provide the market's renowned liquidity by trading in their shares. The clumsy introduction of a panoply of tougher insider trading restriction and disclosure requirements could create as many problems as it solves.

There is a delicate path to tread, as the Government seeks to encourage the stock market's transition from free-wheeling independence to a new world-class status compatible with the kind of international financial centre which can serve China's needs.

In this context the priority is not so much to increase the number of local listings as to form links with mainland enterprises and to attract listings from elsewhere in the Asia/Pacific region. But China corporates have proved difficult to accommodate. And elsewhere, current low ratings are a problem. The Stock Exchange received a shock earlier this month when the Australian entrepreneur Alan Bond announced that he had decided to take his Hong Kong listed vehicle private because of the unattractively low rating on which it was being valued.

So the Stock Exchange is suffering a troubled period of transition. But the pressures are not confined to Exchange Square. The Government faces the need to adjust, too.

Hong Kong's lack of a well-developed bond market is a serious drawback. The authorities will need to look at the discriminatory withholding tax on HK$-denominated debt which has curbed the growth of debt markets – apart from the bank-dominated trading in certificates of deposit. They are coming under pressure to establish a Treasury Bill issue in order to improve the financial infrastructure of the Hong Kong dollar-denominated money market.

They will also need to decide whether fiscal encouragement should be offered to investment institutions of the kind that might generate the natural demand for debt instruments which is largely absent in Hong Kong at present. Corporate pension legislation, for instance, is at present being worked on: it provides that where companies incur pension liabilities they must make proper provision for them through a separate fund.

As for the futures market, despite last year's rescue operation it is withering through lack of business. A futures exchange is, it would appear, a necessary symbol of a sophisticated financial centre. But curiously there is no interest rate contract, a gap that needs to be filled.

In banking, the infrastructure is already highly sophisticated. An enormous selection of international banks is present in the territory. Markets in foreign exchange and bullion are large and liquid.

Banking has seen its own scandals in the past. But the tendency for small, local banks to collapse through a combination of imprudence and fraud is being countered by the adoption of tighter supervision which parallels that being imposed upon the securities market. New prudential ratios came into force last month and capital requirements are to be brought into line with the international-grade Basle standards by 1992 at the latest.

In other financial services Hong Kong benefits from its traditional openness to international professional influences. The big international accountancy firms are well-established, for instance. As for the legal profession, the big British law firms have already been able to offer local corporate services because it is relatively easy for British solicitors to obtain Hong Kong qualifications. Now other law firms – for example, those from America – may be able to add on a domestic servicing capability by hiring local lawyers.

But the plan is hotly disputed by Hong Kong solicitors who lack international connections themselves. They allege vociferously that foreign legal firms would be tempted to take on more local work than their scanty Hong Kong-qualified staff could cope with. They may succeed in winning safeguards, but the Government seems set on imposing an international approach.

Already troubled by the hectic pace of change, the financial sector in the immediate future also faces the problems of overheating in the Hong Kong economy. Prime property rentals have jumped, inflation is generally on the way up, and labour is scarce.

Most of these pressures may prove to be merely cyclical (though the brain drain may not be). It will be a more enduring challenge, however, to bring about a fundamental change of approach against a delicate political background.

Over the next nine years or so the territory's financial institutions must weld a new sense of responsibility and purpose on to their traditional dynamism. China needs Hong Kong, but Hong Kong will need China's patronage even more.

Barry Riley on the aftermath of the crash

The exposure of a club

WHEN THE Stock Exchange of Hong Kong's Committee made the momentous decision to shut the market *for four days*, after the disastrous slide of Monday October 19 last year, it effectively sealed its own fate. It became inevitable that the Hong Kong Government would step in and impose serious regulation, where before it had only tinkered.

There followed corruption charges against Ronald Li, the exchange's chairman, in January and by August this year another seven committee members and top officials were facing similar accusations. Even those committee members not charged with offences were barred by the Governor, Sir David Wilson, from seeking office in this month's elections.

Curiously, *the Government* has never directly criticised the closure decision itself. Twelve months on, Piers Jacobs, Financial Secretary, says it was "*sensible in the circumstances*". David Nendick, Secretary for Monetary Affairs, insists that "it was right for the Stock Exchange to suspend trading in our particular situation".

But the aftermath was so damaging, especially in relation to the crash of the futures market, that the Government was forced to act to restore the name of Hong Kong as a major financial centre.

Soon after the market's collapse the authorities called in Robert Fell, a former Hong Kong Banking Commissioner, and one-time chief executive of the London Stock Exchange, as temporary chief executive. Soon it had commissioned a major report on securities market regulation from Ian Hay Davison, the top London *accountant who had a spell as* chief executive of the scandal-ridden Lloyd's insurance market.

Many of the subsequent Davison recommendations, which were presented in June, are now being rapidly implemented. *Draft legislation is* being confidentially circulated governing the establishment of a new Securities and Futures Commission. A new constitution has been imposed upon the Stock Exchange, and an almost entirely new ruling Council was elected in a members' vote on October 17.

Yet although Ronald Li and his associates are in official disgrace, their reputations *among the Exchange's membership* have not necessarily been ruined. Mr Li's achievements in terms of bringing about the creation of the unified *exchange in 1986, through* the combination of four separate markets, were substantial.

He helped to popularise share trading in Hong Kong, creating the most liquid Far Eastern market outside Japan. He kept the international securities firms out of the central decision-making process of the Exchange, even though they were generating around half the business, and even some of the local corporate brokers were held at arm's length.

He was the champion of the individual member – who in many cases is not really a stockbroker but uses his seat on the Exchange to trade more cheaply for himself, his family and his friends. But Mr Li failed to recognise in time that the market needed to be professionalised. As an entrepreneur *he tried to run the Stock* Exchange as a kind of Chinese family business rather than a public institution.

While chairman, he appeared *to have his fingers in almost* every pie. It was his alleged preferential participation in new issues at favourable prices that has brought him into the courts. But conflicts existed in several other areas of stock market operations. For *instance, as disclosed* in the recent Stock Exchange annual report, Mr Li is a director and shareholder of various property companies which rent *premises to the Exchange* Club, and provide office space and storage space to the Exchange.

There was another example *of blurring of public and private* activities in the lavish "study tour" which the Exchange undertook to New York just before the crash last year. *It was billed as an exercise* to promote the Hong Kong market's merits to US institutional investors (with singular ill-timing, it turned out) but it was also an *opportunity for* several hundred members to take a subsidised trip to North America.

That cost over $HK7m (more *than £500,000*). *Another* $HK4m-plus went on a huge *birthday party to celebrate* the first anniversary of the unified market's official opening. Unfortunately it was scheduled for the evening of October 26, the day the Hang Seng Index crashed by a third – not an occasion for good cheer and *merriment*.

While big money was being spent on events like these, the introduction of a modern settlement system was being delayed, partly because, according to bankers, Mr Li was insisting on having a personal stake in the new clearing company.

Yet so long as the market was booming the Exchange's management shortcomings were overlooked by the authorities. Perhaps the attention of the Government was diverted by the success of unification. Meanwhile the Securities Com*mission complained* of lack of resources. It certainly lacked the political self-confidence to take on the increasingly powerful Stock Exchange. Mr Li is an *impressive man: before his fall*, he was one of the few Chinese businessmen who was capable of taking on the civil servants and winning.

All this changed after the crash. The Exchange was exposed as a club which was riddled with conflicts of interest, not only internally but also *in respect of the disastrously* unstable Futures Exchange. *This was constitutionally separate* but, needless to say, Ronald Li had a role there too, as deputy chairman.

In a crisis the Hong Kong Government turned to Europeans, in the shape of Mr Fell and of Susan Selwyn, brought out from the London Stock Exchange to act as deputy chief executive. But this has run the risk of alienating the predominately Hong Kong Chinese membership.

So has the use of the Governor's effective veto in weeding out the candidates for this month's council elections. Some nine of the caretaker management committee, which took over from the previous ruling body last January, were excluded. Although not charged with offences themselves, there were fears that they might become implicated in future through the court cases of Ronald Li and his associates.

Now the leadership has been handed back to Hong Kong hands but with a difference. The new chairman, Sir Quo-Wei Lee, is an independent council member. He is the eminent chairman of Hang Seng Bank and a member of the Territory's Executive Council. As new chief executive, Francis Yuen will straddle the cultures of East and West. Born locally, he was educated at the University of Chicago, and has subsequently *worked for 11 years in* Hong Kong for Wardley and Citicorp.

Mr Yuen insists that the time has come for professional management to be imposed on the Exchange. Future decisions must be made in a worldwide context. "I believe in *historical* forces," he says. "Once progress has reached a certain stage it can never be reversed."

Sir Q.W.Lee, however, adopts a cautious approach to some of the changes being imposed on the Stock Exchange. He thinks that the *Davison report went* into too much detail, and he is not convinced, for instance, that it is always inappropriate for the Exchange to fix the prices of new listings, a controversial practice of the Ronald Li regime which has now been *dropped*.

He sees himself as serving only a two-year term as chairman. After that, those old com*mittee members* who have not been found guilty of corruption should be allowed to come back. Meanwhile his main priority is to ensure that there is the "absolute minimum of interference by the Securities and Futures Commission".

Time will tell whether the changes at the Stock Exchange of Hong Kong will be far-reaching or whether they will only *prove to* be skin-deep.

REGULATION

Difficult transition

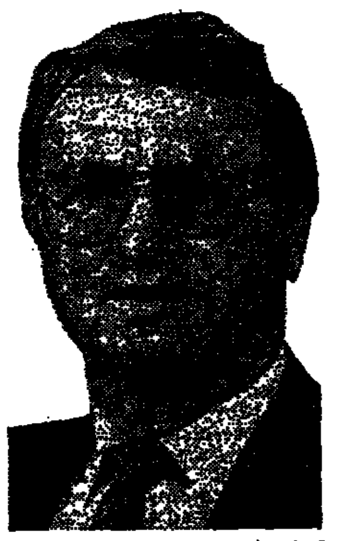
DRACONIAN enforcement powers are being sought by Hong Kong's new securities markets regulatory body. A *confidential draft of the Securities* and Futures Commission Bill 1988 now circulating has aroused protests from local practitioners over several of the more extreme provisions.

For instance, under Section EA the Commission wants to be able to require its questions to be answered even when those answers are incriminating. Such statements may be used in evidence against the person concerned. Moreover, Section EC provides for the SFC's investigators to be able to enter any business premises without a warrant and require employees to produce any document.

The existing equivalent provisions – Section 123 and Section 124 of the Securities Ordinance – are regarded as *inadequate. But the Government* recognises that unrestricted search rights may prove controversial, and it may concede that a magistrate's warrant should be required. If so, however, the warrant will include the power to detain all persons on the premises until further notice.

"Experience suggests that a warrant to enter and search is sometimes ineffective if persons on the premises leave during the period of execution of the warrant, taking with them books and other records," explains the confidential Government document, quaintly.

Whatever the final shape of the *legislation*, the days when Hong Kong could be thought of as a *laissez faire* financial centre are distinctly numbered. However, the exact power rela*tionship between the SFC* and the financial bodies it will regulate – the largest being the Stock Exchange – still remains to be defined.



Mr Robert Owen: head-hunted

Robert Owen is the man who has been head-hunted in London to head the new regulatory regime. A former diplomat turned merchant banker, he at present carries the interim title of Government Securities Consultant, but will become the first chairman of the SFC if all goes according to plan.

The Bill is likely to reach the Legislative Council early next month, and if passed it will enable the SFC to be set up with what are regarded as the minimum essential powers. It should be in action by the end of January 1989. According to Mr Owen there is no time to *wait for a full review of existing* legislation, though this will be undertaken over the year or more after the SFC is established.

Already the organisational framework is being put into place, starting with a company called the Provisional SFC. It is envisaged that the Commission will have some 200 staff, compared with 110 for the existing Securities Commission (though in practice this has tended to be short-staffed).

Whereas the old Commission, as a Government department, suffered from severe budget limitations, the SFC will have more freedom on the funding side. As a corporate body it will be able to raise its own revenues through the imposition of fees (though the Government will also make an annual contribution). The SFC's budget will be at least HK$100m annually, compared with some HK$40m for the existing Securities Commission.

Perhaps partly in search of revenue, the SFC will spread its tentacles fairly widely. For instance, investment managers will come within the regulatory net for the first time. Between 8,000 and 10,000 individuals may need to be regulated, although the new system may focus on firms rather than on practitioners.

Mr Owen will take on some of the staff of the Securities Commission, but his clear intention to be discriminatory has contributed to the slump in morale amongst the existing regulators. The Commission is, for instance, struggling with a year-long backlog of unit trust authorisations.

At present, therefore, market regulation *is going through* a difficult transition period in Hong Kong. The problems of the Securities Commission are recognised by the deputy commissioner Philip Thorpe. "Productivity has dropped because people are perplexed about their futures," he admits, though fortunately the markets have been *quiet*, which has reduced the work load.

Those Commission staff members that Robert Owen asks to come over will have to leave the civil service. As a carrot, Mr Owen is promising "responsible private sector-type salaries," adding: "There is an understanding that there has to be more flexibility than in the past."

As Mr Owen builds his organisation the big question must be whether he can really seek to impose Western standards on an oriental financial market place. Many sceptical voices are being raised.

For example, Robert Yue, whose role as chairman of the Stock Exchange's interim Management Committee has just been superseded, has sounded a warning about over-regulation. "We must develop the Exchange as the main regulatory body. We cannot afford duplication of functions and we must maintain the variety *of trading firms which presently* comprise our market and its notable liquidity," he wrote in the Stock Exchange's annual report last month.

Mr Yue also voiced concern that the cost of regulation "could easily reach a point where it becomes counter-productive to the development of financial markets in Hong Kong".

For such anxieties Robert Owen offers soothing words. The SFC, he insists, will not be anything like as "complex and heavy" as the Securities and Investments Board in the UK. "I know there is concern about regulation damaging the markets. I don't believe it is a justified fear. We are going to have to get the act cleaned up if we are going to attract international investment. There has to be a tightening of regulation and the vast majority of participants welcome this."

He intends, he points out, to have a role in the development of the Territory's reputation. "The job of *commissioner* is very much to promote Hong Kong as a financial centre. It's not just a policeman's job."

But in areas such as insider dealing Hong Kong presents special problems. Most of the listed companies are family-controlled. Indeed, one of the more pressing problems of the Stock Exchange is to ensure that companies comply with its requirement *that at least 25* per cent of the equity must be dispersed in public hands.

In these circumstances, to define insider trading too narrowly and to seek to enforce such standards (insider trading is illegal in Hong Kong, though not criminal) would be to threaten a great deal of the existing business of the stock market.

Timothy Beardson, managing director of Crosby Securities, which does business for a wide range of overseas institutions, insists that regulation does not automatically make markets more attractive.

"I feel that there is often a conflict between regulation and liquidity," he says. "Liquidity is more important. Companies in Hong Kong often trade their own shares. It may be insider trading, but it creates liquidity. If they can't get in and out with ease, foreign institutions aren't going to come here."

But Robert Fell, who has just stood down after nearly a year as chief executive of the Stock Exchange, and remains in an advisory role, argues that it is a mistake to believe that regulation is being tightened.

"I don't see any great shift in regulation," he says. "Rather, we are making sure that the things that went wrong before are put right."

Low turnover has only been a temporary problem since July, he insists. In other respects the Stock Exchange is healthy. The price of seats is buoyant as foreign securities firms strive in increasing numbers. And the flow of new listings, he says, is encouraging. "If you can show that the market has integrity, listings will come along."

A pragmatic view comes from Alan Smith, managing director of Jardine Fleming, who was elected last week to the new Stock Exchange ruling council. "Hong Kong has to make itself attractive," he says. "If it gets over-regulated it may drive people away. Hong Kong should not try to be at the cutting edge of new regulations."

But he concludes: "People will accept new restrictions as long as we are not the first to bring them in."

Barry Riley

HONG KONG AS A FINANCIAL CENTRE 3

John Elliott looks at the economy's performance and prospects

Capacity shortages help to boost inflation

HONG KONG is famous for what is often described as its "boom or bust" economy. This autumn, however, the boom of the previous two years has given way to a period of consolidation with considerable concern about labour shortages and rising inflation, and growing worries about how China's economic and other problems will affect the future.

After an average GDP growth of over 12 per cent in the past two years, the Government now says it expects 8 per cent this year and next as the economy adjusts to being over-stretched. Other economists' forecasts are in the 5.5-6.5 per cent range with anything between 4.5 per cent and 7 per cent in subsequent years.

The drop is partly caused by serious capacity shortages, especially labour with unemployment at only 1.8 per cent. A brain drain of younger Chinese executives and professionals is also pushing up staffing costs.

The capacity shortages have helped boost inflation from 5.5 per cent last year to a six-month average of 7 per cent in the first half of this year, and an expected year on year rate of 10 per cent or more by December.

At such a time Hong Kong does not want the economy hit by China's problems. "The question is now being raised of how to insulate Hong Kong from the vagaries of China's economy," says Mr Vincent Cheng, chief economist at the Hongkong Bank. "Up to now China has been a premium for us rather than a risk. But what of the future?"

The geographical and political reality that Hong Kong is part of mainland China, despite its temporary status as a British colony, is being underlined by economic developments which are bringing in new business and industrial links.

Hong Kong provides 60 per cent of China's foreign investment. In the other direction, Peking-based organisations such as China Resources, the China International Trust and Investment Corporation, and the Bank of China Group, plus other spin-offs from China's provinces, are building up their activities in the colony.

Two more statistics underline the impact. One is that at least 1.5m mainland Chinese people, and maybe as many as 2m, are working in the adjacent Chinese province of Guangdong for Hong Kong manufacturers. That compares with only 877,000 employees in Hong Kong's own manufacturing industry out of the colony's total labour force of just 2.5m. The creation of Guangdong manufacturing offshoots has provided desperately-needed cheap labour for Hong Kong companies, which can then take their own locally-made goods up market.

The other is that Hong Kong's re-exports are still growing rapidly – up by an estimated 42 per cent in real terms in the first half of this year to over HK$117bn (nearly £9bn), compared with an original government forecast of only 12 per cent. Their share of total exports rose to 55 per cent.

The question is now being raised of how to insulate Hong Kong from the vagaries of China's economy

"The surge in our re-export trade in recent years highlights the re-emerging role of Hong Kong as an entrepôt. China in particular, has a major role both as a source and as a market for our re-exports," Mr Piers Jacobs, Hong Kong's financial secretary, said in his mid-year economic review last month.

Re-exports are classified as goods which are not merely in transit but which are also not materially changed. "There can of course be a lot of packaging and repacking," explains Mr Alan Maclean, the government's economist. "For example, bringing in tea and putting it into packets, is a re-export. But mixing teas from Sri Lanka and Assam is not – that is a new product." Similarly toys made in Guangdong and re-packed in Hong Kong are a re-export, but components assembled in Hong Kong are ordinary exports.

Mr Jacobs reported that re-exports to China and re-exports of goods from China both rose by 50 per cent in value terms in the first half of the year. China took goods worth HK$39.04bn in the first half, amounting to 33 per cent of the colony's re-exports. The US took 17 per cent while 6 per cent went to both Japan and Taiwan. China was a source for HK$54.82bn, or 47 per cent, of the colony's re-exports followed by 13 per cent from Japan and 7 per cent from both the US and Taiwan.

No-one is sure of the exact impact of re-exports on the economy, although there is some gain for GDP. One spin-off is a 12-15 per cent increase this year to 105,000 in the number of people employed in services related to trade. And in a year when the growth of overall exports is dropping to 6 per cent from 23 per cent last year, the continuing rapid expansion of re-exports is important.

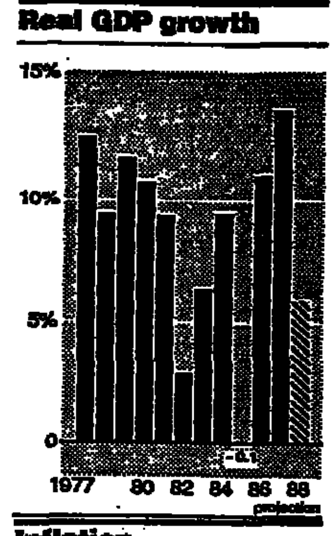
However, the growing importance of China in such aspects of the economy is causing considerable apprehension for the future. For example the expansion of China's organisations in Hong Kong could well be hit by Peking's current anti-corruption drive. There have been persistent allegations in China of corruption against people stationed in Hong Kong, who are also accused of unduly high standards of living.

Much more worrying is the impact that China's inflation rate of 20 per cent or more could have on the colony. So far there it has been little felt, mainly it is thought because trade is done in Hong Kong dollars at black market rates which put the dollar on a par with the Chinese Renminbi Yuan, whereas the official rate is only RMB0.47 to HK$1. This is soaking up the surge in Chinese prices, but obviously cannot continue indefinitely.

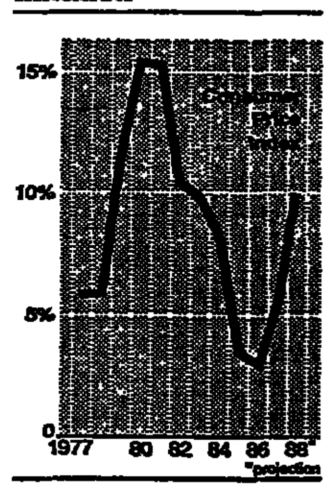
But, above all, it is the future of Chairman Deng Xiaoping's economic reforms which is the over-riding concern. Indeed there is a view that Hong Kong's sluggish stock market will not recover till after the trauma of Deng's ultimate death. "If you ask me what is the most important thing needed to lift the market here, I must say it would be the clearing of the air that would come with Deng dying and his reforms continuing," says one broker.

That remark can be applied not only to the stock market but also to Hong Kong's medium-term economic prospects, and its longer political survival after 1997.

Real GDP growth



Inflation



International views on reform

Chance of restoring its reputation

"WHY WOULD a Swiss bank invest in Hong Kong? Because in a bull market it will move up more than the Swiss market."

So says Marc Faber, himself a Swiss citizen, but now the manager of Drexel Burnham Lambert's Hong Kong office, and the territory's resident Dr Doom. He harks back to the Hong Kong Stock Exchange's traditional role as an exciting, speculative market where the action is swift but the risks are high.

Can Hong Kong, after the crises of the past year, turn itself into an altogether more respectable, if duller, market? "This is a village," he replies. "They've blown it. It won't be a major financial centre in my opinion."

But Mr Faber is in a minority – not, in his case, an unusual position. Most other representatives of the international financial community feel that Hong Kong has at least a chance of pulling its reputation out of the fire.

For example, Timothy Fiducia, head of the Hong Kong office of the London-based stockbrokers James Capel, is optimistic. "The Government had to show the outside world that it was taking action," he says. "I think it has worked."

Mr Fiducia reports that foreign institutional investors had different reactions to the traumatic events of last year, which started with the market's closure and subsequent free fall. There was a parallel financial collapse of the futures market and, in due course, there followed the wave of arrests of top Stock Exchange officials on corruption charges.

The British, Mr Fiducia says, were not particularly surprised by these shocks. The Americans and Canadians, however, were "absolutely horrified". The American institutions largely withdrew, arguing that they would be in breach of their fiduciary responsibilities if they invested in corrupt or illiquid markets.

Even now, US interest is weak. However, the British institutions have returned to some extent, and there has been an increase in Japanese participation.

Despite the crash, increasing numbers of Japanese, American and other foreign securities firms are applying for membership of the Stock Exchange. Shares in the Exchange, which are required for membership, have been changing hands at the rate of seven or eight a month.

Over-policing could kill local interest. 'People don't want their books looked at.'

In April 1986 there were 892 individual members and just eight corporate members. By June this year there were only 653 individuals, while the corporate membership had grown to 102.

This growth in corporate, and especially, international participation, has in the past led to growing tension because until now the management of the Exchange has almost entirely been in the hands of individual members, who were championed by the now disgraced former chairman, Ronald Li.

For example, the Exchange has been slow to update its 24-hour settlement system which suits local brokers who like to get cash on delivery but is highly inconvenient for international securities firms acting for clients who may be thousands of miles away.

In practice, some 30 per cent of trades fail to be settled the next day even in quiet conditions, and top priority is now being given to the introduction of a modern settlement system which will be based on a five-day period, in line with international standards. Local brokers will still be able to settle the next day if they want to.

This new system has been planned in outline, premises have been secured, and preparations are being made to seek necessary amendments to company law in a bill next May. Five-day settlement should be introduced early in 1990.

Elsewhere, the Exchange has now implemented recommendations of the Davison report which set out a complex representative structure for the new ruling Council. At the election this month candidates were selected from separate individual and corporate lists, as well as a third unrestricted list, to ensure that all sections of opinion would be represented on the Council.

From now on, therefore, the Stock Exchange should be free of the accusation that it has been run largely as a private club, and one controlled by a clique, at that. But it now faces a battle with the new Securities and Futures Commission over its ability to manage its own affairs. And there will certainly be tighter surveillance and more rigorous enforcement of rules than under the old regime.

Will all this be viewed favourably? The international financial community in Hong Kong has mixed views.

Mark Mobius is managing director of the Hong Kong office of Templeton International, the Florida-based global fund managers. He says some 1.8 per cent of Templeton's worldwide funds are invested in Hong Kong blue chips, representing an overweight position. "We think the market is in a reasonable price range," he suggests.

In principle Mr Mobius is against too much regulation and is ready to take the rough with the smooth. "I'm willing to live with the risk for the benefit of a free-wheeling, open market which allows participation by locals," he says. "Regulation should focus on the flow of information." Hong Kong, he suggests, is in danger of setting up an apparatus which duplicates what other centres are doing.

Anne West is managing director of Scimitar Asset Management Asia, a Standard Chartered subsidiary. She, too, is concerned that the pendulum may be swinging too far in the direction of the supervisors.

"I just hope they don't over-regulate the market to the point where it can't fulfil its purpose," she says. Meanwhile she dismisses any question of a loss of status, arguing that this is a strictly temporary problem. A bull market would quickly change international opinion.

"As soon as the market starts going up the international investor will forget how the market lacked credibility," she says.

Can prices rise? There is considerable potential for the Hong Kong market to recover, according to Duncan Mount, a well-known Hong Kong fund manager and Sunday newspaper columnist. The prospective price-earnings ratio is no more than 8.5 he suggests, a level which is "fairly unheard of".

"Over the past 10 to 15 years the market has never been this cheap," he says. "Sentiment can only improve. The upside potential in Hong Kong is a doubling of the p/e. I'm on the optimistic side."

But Mr Mount, who recently moved from Gartmore to become managing director of CEF Investment Management, part of a Canada/Hong Kong joint venture, warns that over-policing of the market could kill local interest. "People don't want their books looked at."

"The Chinese are great gamblers," he adds. "If it's a dull race they don't want to be in it. There's nothing going on in the market at the moment."

Like Mr Mount, Irene So, managing director of Mansion House Securities, a listed Hong Kong broking firm, is bullish about Hong Kong share prices. She sees one of the opportunities as being to attract business from Taiwan, where although the stock market bubble appears to be bursting, share ratings are still much higher than in Hong Kong.

Mansion House also has a representative office in London. "We can see the trend. We are offering a complete service," she says. But it has not proved easy to pull in business from Taiwan, where investors have been preoccupied with their own remarkable domestic market trends.

The future may in fact depend more upon investors from places like Taiwan or, more importantly, Tokyo than from Britain and the US which have traditionally been big local players in the stock market. Far Eastern investors are probably less concerned about some of the more elaborate regulatory developments than about factors such as currency and liquidity.

As for those Swiss banks, will they be impressed by the new image of Hong Kong? "We are in the Far East here," says Marc Faber. "We have slightly different standards. To restrict the market too much is basically wrong."

Barry Riley

HONG KONG AS A FINANCIAL CENTRE 4

John Elliott on last week's appointments and elections

Face of a respectable Stock Exchange

IF THERE is one man who epitomises the respectable and international future for Hong Kong's stock and futures exchanges which the government and international institutions are seeking, it is Mr Francis Yuen, appointed last week to be the new chief executive of the Stock Exchange.

A 36-year-old US-educated, Shanghai-born, ex-banker, Mr Yuen has taken a salary cut from his job as managing director of Citicorp Scrimgeour Vickers to take up the HK$2.5m (£184,000) a year post. Earlier he set up, and for two years ran, Citicorp's local investment banking division, having started his banking career in 1977 at Wardley, the Hongkong and Shanghai Banking Corporation's merchant bank offshoot.

Mr Francis Yuen was appointed last week to be the new chief executive of the Stock Exchange

Some people suggest he is rather young for the job, but he thinks he was picked because he grew up in Hong Kong before going to a US university, and then returned there to work. "People probably think I can talk to the small brokers, many of whom cannot speak English, in their own way, as well as deal with international firms." This will be important because there is tension between the small local brokers and international figures, especially those recruited from the UK to try to impose international standards.

Above him he has a new chairman, Sir Quo-Wei Lee, age 60, chairman of the Hang Seng Bank which is part of the Hongkong and Shanghai Banking Corporation, and a new stock exchange council. There is a four-man governing body comprising Sir Quo-Wei, Mr Yuen, and two vice chairmen – Mr Tony Fung of Sun Hung Kai Investments and Mr Kwan Cheong Yiu of Golden harvest Stock Investment.

On top, with an overall regulatory role, there will be Mr Robert Owen, a self-confident 48-year old former British diplomat and senior Lloyds Bank executive who since July has been the Government securities' consultant. If all goes according to plan, he will head a new independent Securities and Futures Commission to be set up early next year, once new legislation is passed. The commission will replace three existing government agencies.

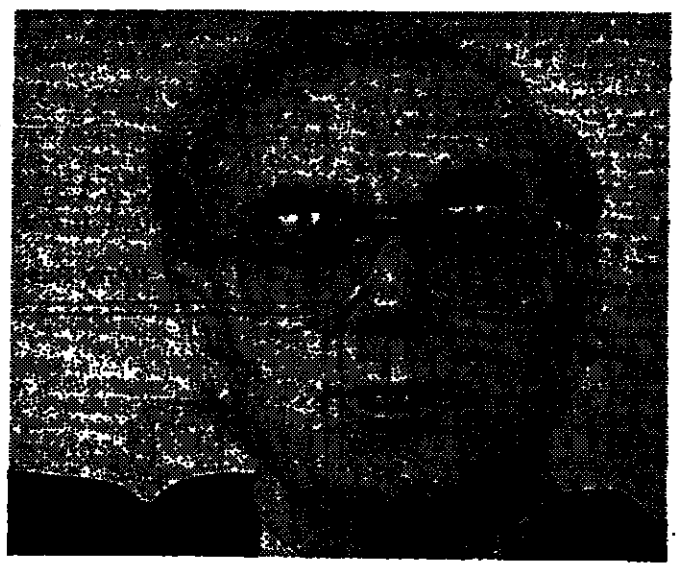
Stock exchange council elections last week produced 16 new members from a list of 26 candidates, all vetted by the government. They included two people from international brokers for the first time – Mr Alan Smith of Jardine Fleming and Mr John Seto of Wardley-Thomson – plus Mr Chao Shing-on of the Peking-based Bank of China's Group's Chung Mo Securities. This brings a Peking voice into the affairs of the exchange for the first time.

Sir Quo-Wei Lee: Chairman

The 16 then appointed five non-stockbroker lay members chosen by the Government, including Sir Quo-Wei, who was elected chairman. The five also included another international representative, Mr Nigel Tulloch of Wardley Investment Services, who brings to a total of three the number of people on the council from the colony's main establishment institution, the Hongkong and Shanghai Banking Corporation.

A prominent local figure who is on the colony's Executive Council and is chairman of the Education Commission, Sir Quo-Wei has been in banking since he left school in the 1930s. He first joined the Hong Hong branch of the old Shanghai-based China State Bank in the 1940s and later moved on to the Hang Seng where, in the early 1960s, he was the bank's negotiator for its rescue from a crash by the Hongkong Group. "It was not because I was that senior, but I was one of the few who spoke English," he says.

He was also involved in launching the Hang Seng Index in 1964.



Mr Robert Fell: Consultant

On the council, it is the injection for the first time of international brokers which is seen as the most important development, although tensions between the local and international communities were demonstrated by the election defeat of candidates from brokers such as Citicorp Scrimgeour Vickers, Barclays de Zoete Wedd, Hoare Govett, and County NatWest.

The election of some international firms was assured by design of the election system, giving a separate section for corporate members, to prevent the locals winning all the seats.

None of the eight former stock exchange officials now facing trial, in a case which has been adjourned till next March, could stand in the elections. The government also made it clear to nine members of an interim 14-strong management committee which operated till last week – including Mr Robert Yue, the chairman – that they too should not let their names go forward this year because they might be involved in some way in the forthcoming trial, for example as witnesses. One of the nine, Mr Henry Wu, who is chairman of the Hong Kong Stockbrokers' Association, insisted his name should go forward and then found it withdrawn by Sir David Wilson, the colony's governor.

Mr Francis Yuen believes that it will not be possible for the eight former officials now facing charges, nor the nine others advised not to stand in the elections, to wield power in the future, although he says he hopes some of the nine are re-elected in future years. "I believe in historical forces – once you've gone on you can't come back. Hong Kong has gone beyond the stage of entrepreneurs running the exchange. Even if the nine people came back, they will not be significant forces. History has moved on."

The plan is to make the exchange much more professionally run, turning from an entrepreneurial management style to more professionalism. Mr Yuen says that means defining employees' job responsibilities for the first time, sorting out conflicts of interest, developing relationships with the Securities Commission to avoid duplication, and strengthening staff in the listing department.

Mr Yuen argues that in the next three to five years the future of securities markets will be "driven by the advancement in telecommunication links reducing distances between New York and Hong Kong and other exchanges, and by the world-wide de-regulation effort which may mean you have world-wide standards and 24-hour trading". That, he says, "sets out clearly that the number one priority here is to organise the new central clearing and-deposit taking".

There will of course now be tensions among the new faces, partly between the new international brokers and the old local Chinese stockbrokers on the council. There is also a row brewing over the interventionary powers and cost of Mr Owen's new commission. The exchange's new top officials have stressed publicly that Government interference must be kept to a minimum. "We must show the Government we can run our own affairs," says Mr Yuen.

Mr Robert Fell, who was temporary chief executive of the exchange till last week, and will now operate as a consultant and help install the new clearing system, brought this bluntly into the public arena last week.

In a speech he complained that the existing exchange commission had sent two young ladies round to second-guess his plans for expanding the exchange's premises. Explaining that he had heard Mr Owen's commission might cost HK$60m a year, four times the present cost, he asked: "Does this increase mean that instead of two young ladies we will have eight or even ten young ladies measuring the space and air-conditioning we will provide for the new settlement system's computers?"

The trading floor of the Stock Exchange

Barry Riley looks at potential stock market listings by Chinese corporate entities

Every incentive to forge strong links

AROUND THE Hong Kong Stock Exchange's gossip circuit predictions of imminent listings by Chinese corporate entities are two a penny. But, disappointingly, the much-discussed events never quite seem to happen.

Earlier this month Robert Fell, just before he stepped down as the Exchange's chief executive, was confidently forecasting that the long-awaited first listing would finally arrive within a matter of weeks. "I would expect some of the China entities to be listed here before the year is out," he predicted.

A day or two later, however, the Hong Kong newspapers were full of stories from Peking that the Chinese leader Deng Xiaoping had accused several Chinese trading conglomerates of corruption and was proposing to strip them of some of their privileges. The affected concerns allegedly included several of the most likely candidates for listing.

The potential importance of stock market listings lies in their implications for the role of Hong Kong as a financial centre for China. If capital can be raised through the Hong Kong Stock Exchange then not only will mainland-owned entities be committing themselves to a capitalist institution but the vulnerable political position of the territory post-1997 will be given a degree of support.

There are three different categories for listings. The first amounts, in fact, to nothing new, because several mainland-controlled companies are already listed. These were originally Hong Kong entities into which Chinese interests bought their way, while maintaining the listing. They include two banks and one or two industrial companies.

It is also worth mentioning that one of the top 10 stockbroking firms, Chung Mao Securities, although not itself listed, is owned by the Bank of China group. This illustrates that there is already significant participation by mainland interests in the Hong Kong securities market.

The second category is the one from which any listings will emerge in the near future. It consists of the Chinese-owned Hong Kong-incorporated companies which are often part of sprawling mainland trading conglomerates.

An example is China International Trust and Investment Corporation (CITIC) which since its formation in 1979 has built up an extensive portfolio of investments all round the Pacific as well as in China. In 1986 it bought Ka Wah Bank of Hong Kong.

Another important Chinese enterprise is China Resources, established 40 years ago. It enjoyed a monopoly of trade through Hong Kong until 1983. Today it is estimated to have more than 200 subsidiaries and joint venture operations in the territory.

Others include Everbright Industrial, China Travel Service, China Merchants and Guangdong Enterprises. Then there is, of course, the Bank of China Group itself, which was mostly confined to trade finance until 1979 but has subsequently expanded rapidly into retail banking through a network of subsidiary banks.

Any listings among these enterprises — and CITIC's name has been mentioned most frequently — would involve the publication of much more financial information than they have provided up to now. Probably it would require a booming stock market to tempt them out, with the lure of a high share price and cheap capital. In the wake of last year's stock market crash, conditions may not seem quite attractive enough.

Then there is the question of Peking's supposed crackdown on corporate sector corruption. This may well turn out to be a nine-day wonder, but the episode does provide a reminder of the political risk which would attach to any listed mainland entity.

The third category of listings would embrace mainland entities which had little or nothing to do with Hong Kong but simply wanted to use the territory as a source of risk capital.

In fact there has been a certain amount of issuing of such shares in Shanghai, but the inadequacies of the legal infrastructure for corporate entities in China are such that Hong Kong listings do not look at all close.

The problem has to some extent been tackled by foreign banks which have lent to mainland enterprises. Loan documentation has to sort out as far as possible where responsibility for a company lies. But with equity capital the problem would be compounded by the absence of any clear legal basis for the rights of shareholders.

A second difficulty is that companies would need to ensure availability of foreign exchange to be able to pay dividends. Mainland enterprises might not have such access, but it should not be a problem for companies with extensive trading interests in Hong Kong.

At any rate, many Hong Kong merchant banks have held discussions over the years with Chinese-owned enterprises about the possibility of Hong Kong listings. So far the problems in drawing up a credible prospectus have either been insuperable or at least have rendered the idea unattractive to the entities concerned.

But — who knows? — Robert Fell's hint may well have been based on firm negotiations by the listing committee. The Stock Exchange certainly has every incentive to build a strong relationship with the mainland economy

GOLD

World price sustained by local demand

IN A year when gold has been shunned by much of the western world, the precious metal has been flowing into Hong Kong at a record pace.

The territory serves as the gold distribution centre for south east Asia and surging demand from neighbouring Taiwan has been the driving force behind this year's high imports into Hong Kong.

The fall in the bullion price below $400 an oz in late September also triggered a buying spree among Hong Kong Chinese. Local jewellers have been working day and night to meet demand and replenish empty shelves. Gold tael bars, the 1.2 troy ounce unit used in south east Asia, have been selling like hot cakes.

"It's a characteristic of Asians that they buy when the price dips and sell when the price rises," says Mr Joseph Lo of GoldCorp Australia, a gold and platinum marketing company. The world bullion price would have fallen even further this year had it not been for regional demand, especially from Taiwan and Japan, he says.

Hong Kong ranks third in the world after London and New York as an entrepôt and a gold trading centre. A record 241 tonnes of gold kilo bars were imported between January and July and the total for the year is expected to reach at least 300 tonnes, compared to only 158 tonnes last year.

Gold flows in principally from Switzerland, the UK, Australia and the US. An estimated 20-30 per cent stays in Hong Kong to be turned into jewellery and tael bars, both for local consumption and for re-export.

Ms Jonie Lai of the World Gold Council

Of the rest, only 15 tonnes left Hong Kong officially in the first seven months. But because it is a free port, the remainder would have been re-exported unofficially to black markets in countries where bullion trading or importation is restricted.

Taiwan's huge appetite for gold this year has been fuelled both by private investors and by the Government's attempts to reduce its bulging trade surplus under pressure from the US.

In the first eight months, Taiwan imported 279 tonnes officially, of which 13 came through Hong Kong, according to Ms Jonie Lai of the World Gold Council. In addition, about 50 tonnes reached Taiwan through unofficial channels.

The Taipei Government has been trying to encourage a more open gold market, lifting its ban on imports and trading at the end of 1986 and abolishing a 5 per cent value added tax on bar and coin sales in July this year.

But it still levies an import duty of about US$3 an oz — and many local jewellers simply prefer not to declare all their imports to avoid increases in corporation tax.

Hong Kong's tax-free status may make it highly attractive to smugglers. But it also leads the league in the south east Asia time zone because of its good communications and established international market patronised by the top bullion houses.

The "Loco-London" market, which acts as a London market in the Far East time zone, trades about 1m oz on an active day. Since its launch in 1975, it has grown far more important than the local Chinese Gold and Silver Exchange Society, which trades both in physical tael bars and as a futures market.

Daily turnover on the local exchange has dwindled to an estimated 300,000 oz from 1.2m oz at its peak in the early 1980s. Mr Ho Chi, managing director of Mocatta Hong Kong, the bullion dealers, blames this partly on the reversion to Chinese rule in 1997. "Because of 1997, the syndicates with lots of money have moved their funds out of the economy," he says. "They play in the US and European markets, so the liquidity has gone."

While paper trading in gold has been relatively dull this year, physical trade through Hong Kong has stolen the limelight. As well as Taiwan, demand for gold is growing in countries like Thailand and South Korea, where strong economies have produced a more affluent population with a taste for gold, both as decoration and investment. Because of import restrictions or levies, much of the gold reaching these countries is smuggled.

Local jewellers have been working day and night to meet demand and replenish empty shelves

Gold is also seen in Asia as security against political upheaval, according to Mr George Milling-Stanley, author of the annual Gold Survey.

"There are two reasons for buying gold," he says. "One is fear and one is greed and the greater of these is fear."

The people of Hong Kong, already laden with memories of the Cultural Revolution in China, have been reminded of the value of gold by the influx of Vietnamese boat people, he says. New lives and new businesses have been started from scratch by refugees who carried out a few tael bars in their socks.

Many Hong Kong people have turned to higher-yielding investments such as foreign currency deposits in recent years. But they still buy gold for long-term saving and as a gift for friends and relatives across the border in China. About 500,000 people from Hong Kong visit China every New Year and they face no restrictions on importing gold.

Jewellery stores are opening up in China and the populace is said to be flocking to gold as a hedge against soaring inflation.

Hong Kong is also a conduit for gold coming out of China, which produces an estimated 50 to 60 tonnes a year. A lot is smuggled out because the official Chinese price for producers is well below the international bullion price — last year it was less than US$300 an oz when the market price was US$450, says Mr Milling-Stanley.

It cannot be known exactly how much is smuggled, but best local estimates put it at 25 tonnes a year.

As for official channels, China exported 10 tonnes of gold bars to Hong Kong in 1986 and 1987 but, intriguingly, none in the first seven months of this year for which figures are available. There are suggestions that Peking, which has been keen to sell gold to obtain foreign exchange, may be exporting bars directly to markets in Europe and the US rather than through Hong Kong.

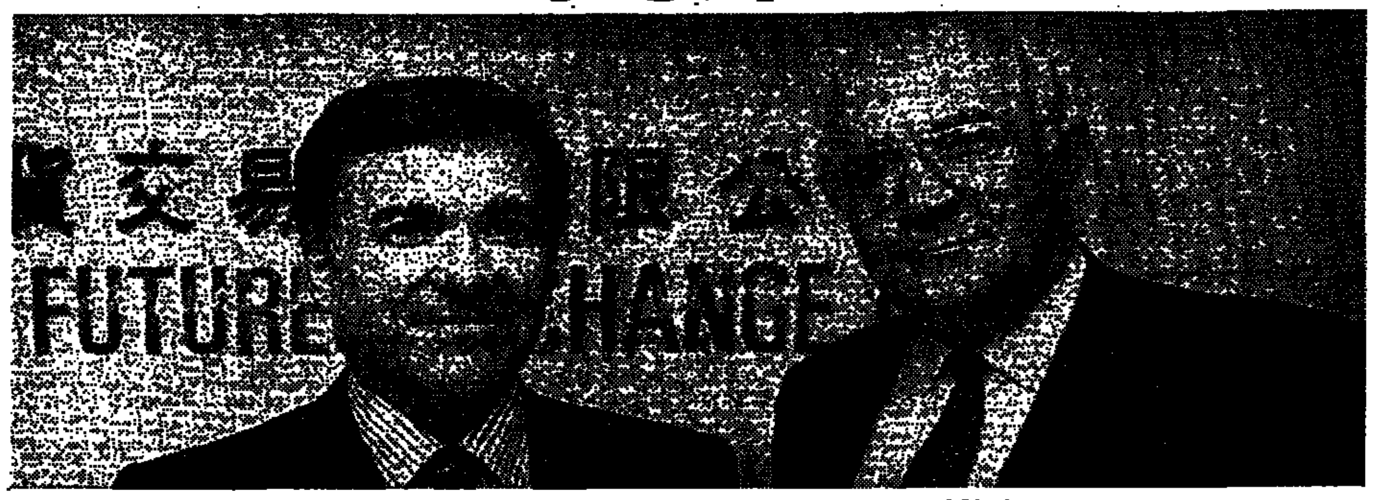
But Mr Lo of GoldCorp believes more Chinese gold is being used to meet internal demand and that exports are taking the form of value added jewellery, figurines and coins rather than bars. Some 2.6 tonnes of Chinese gold coins were imported officially into Hong Kong in the first seven months, compared with just 425 kilos in the same period last year.

As 1997 approaches, dealers and retailers will be keeping an ever warier eye on the channels China chooses to trade gold. But for the immediate future, Hong Kong's role as the gold staging post for the Far East appears solid.

Alison Maitland

Alison Maitland looks as prospects for the Futures Exchange

Credibility gap still wide



Mr Douglas Ford (left), vice-chairman and chief executive of the Futures Exchange, and Mr C.W. Newton, chairman

A SHAFT of light has appeared in the dark cloud that has hung over the Hong Kong Futures Exchange since reckless and uncontrolled speculation pushed it to the brink of collapse last October.

After months of tough negotiation, the original members of the HK$2bn "lifeboat" fund that bailed out the bankrupt exchange agreed three weeks ago on a permanent financial guarantee against default.

Without this safety net, which will consist of a HK$100m members' reserve fund backed up by a HK$50m insurance policy and a further HK$50m in bank guarantees, there was no prospect of a revival in the market.

Now the foundations are in place, the chances of restoring international confidence in the market – and by association in the local securities structure as a whole – are much improved.

But there is a long way to go before the future of the battered exchange looks secure. The main building block is expected to be the introduction of new instruments, in particular an interest rate futures contract which the exchange hopes to launch early next year.

"We've had a lot of interest from the membership as well as the banks, who might very likely become members once we have the interest rate futures contract on board," says Mr Douglas Ford, chief executive. "If they do join, that will add to the robustness of the exchange."

The market was brought to its knees during the October crash by brokers defaulting on Hang Seng stock index futures contracts to the tune of HK$1.8bn – and by the discovery that the Guarantee Corporation backing trades had resources of only HK$22m.

The crisis sent greater shockwaves through the industry than even the pessimists had feared. From its boast of being the second largest stock index market in the world, with as many as 30,000 contracts changing hands each day, the market now counts 600 as a good session. Even the nine-year-old soybean contract, once dwarfed by Hang Seng index futures, has been doing more trades.

While the exchange floor has been a ghost of its former self, officials have been working on a package of reforms to implement the recommendations of the Davison report, published in June.

Immediately after the crash, the restructured exchange board had tightened margin rules, which had been widely abused. It increased margin to 25 per cent of contract value but has since reduced that to 12 per cent – still relatively high by international standards.

Under the chairmanship of Mr Wilfrid Newton, head of Hong Kong's MTR underground railway company, the board also set about raising capital requirements for brokers according to their exposure to risk.

General clearing members, who are entitled to clear their own and other members' trades, must have capital of at least HK$25m. Clearing members, who may clear only their own trades, require HK$10m; non-clearing members need HK$5m and local brokers trading for their own account just HK$500,000. The pre-crash requirement for all members was a mere HK$2m.

The deadline for full compliance with these rules is December 31. The exchange also plans to replace the old Guarantee Corporation with a new, wholly-owned clearing subsidiary responsible for risk management.

Setting up the new reserve fund, unveiled on October 4, was altogether more complex.

The big brokers who contributed to the original lifeboat – led by Wardley-Thomson, James Capel and Citicorp Scrimgeour Vickers – were generally keen to see a permanent fund established, but unhappy about digging deeper into their pockets at this stage.

In return for their doing so, the Government has ceded to them its right to the next HK$150m in repayments to the lifeboat. The big banks, who were shareholders in the old Guarantee Corporation, insisted on a share in the deal and won the right to HK$50m, once the brokers have received their money.

The big brokers have in turn agreed to pay HK$60m into the new reserve fund, due to be set up by October 31 next year. The remaining HK$40m will come from other brokers, with the banks no longer involved.

Between now and then, the Government will continue to provide a HK$100m lifeline. But it will cease to be liable for further calls on the HK$438.5m it has so far recovered out of the HK$1bn it originally lent to the lifeboat.

The lifeboat loans are being recovered through a levy on stock and futures transactions, as well as through broker repayments.

One of the many stumbling blocks in reaching a compromise was the deal struck by the Government after the crash with the wealthy Mr Robert Ng, whose family heads Sino-Land, one of the territory's most aggressive land purchasers. Ng-related companies were responsible for futures trading losses estimated at over HK$1bn, but under the deal Mr Ng paid back just HK$150m immediately and is liable for a further HK$600m interest-free over six years from November 1989.

Mr Ng argued he had no legal liability for the two-dollar companies in whose names the defaulting contracts were held.

"There's been a lot of bad blood between the Government and the brokers and shareholders (banks)," says one insider. "From the brokers' point of view we were never very happy with the Robert Ng settlement," he adds, voicing complaints that the Government did not consult the brokers over the deal.

Meanwhile, court cases are under way to recover other smaller debts. Even the legality of Hang Seng index futures contracts is being questioned under a 1710 gaming act, casting a further shadow over trading.

Some local brokers feel the new financial requirements amount to overkill, especially with volumes so low. "You've got to attract people in to play the market," says Mr Henry Wu, chairman of the Hong Kong stockbrokers' association. "Sometimes a too perfect system has scared people off. I think it's getting too over-regulated. It's gone from one extreme to the other."

Mr Ford would like to see other instruments developed besides the interest rate contract – for example, options on Hang Seng index futures.

But the credibility gap is still wide. Some question Hong Kong's very need for a futures market and argue that the stock market lacks the depth and solidity to provide a firm foundation for futures trading.

Mr Ford will also have to overcome scepticism about whether unfamiliar new contracts can attract the sophisticated speculation they require, instead of the free-for-all variety that proved so damaging last year.

PROFILE: DOUGLAS FORD

Expertise respected

IT WOULD not be surprising if Mr Douglas Ford, chief executive of the Hong Kong Futures Exchange since June 13, were still feeling a little shell-shocked.

Brought in from Canada to preside over a market described by one senior broker as "an unmitigated disaster", he has had to undergo a sea-change both in terms of his job and his home.

From the grain prairies of Manitoba and the stability of the Winnipeg Commodities Exchange, where he was president and chief executive for 10 years, Mr Ford has found himself in a congested international financial centre, with a market that has been strangled by its own volatility.

An agricultural economist credited with turning the 101-year-old Winnipeg exchange into a 1980s success story, he has spent four months in delicate negotiations with banks, brokers and the Hong Kong Government to find a way out of last October's mess.

"I think he thought that by the time he got here the whole situation was going to be solved and he would just run the exchange," says a participant in the talks. "It's been a bit of a rude shock, and the way things get done in Hong Kong has probably been a bit of a rude shock to him too."

If his initial expectations were over-optimistic, Mr Ford, 45, has won respect for his expertise in the futures business and his ability to listen without bias to all the parties involved in the painful process of reform.

With Mr Wilfrid Newton, the chairman of the exchange, who has long experience of UK and Hong Kong business and banking, Mr Ford has hammered out a package of guarantees designed to restore international faith in the market.

Now those guarantees are in place, he says, things are looking more positive.

"The comment on the international front that's come back to me through senior people on other exchanges and associations is that they see it as very important that Hong Kong does have a properly operating futures market. Probably the most important task of the industry generally is to ensure that we have Hong Kong up and running as a recognised international market place for what they see as a virtual explosion in terms of trade."

In the meantime, turnover has slumped to paltry levels. For a "market man" like Mr Ford, this has been frustrating. "He doesn't like having a market that could best be used as a storage area," says a colleague. "He'd like to see some action."

Mr Ford puts a brave face on the problem. "Obviously you'd like to see trade recover. But what has been exciting for me has been that we do have an opportunity, without a lot of pressures from the market side, to get it right and put the reforms in place."

Not that he is short of ideas for reviving business. Initially he hopes to introduce an interest rate futures contract to supplement depleted trade in once-hectic Hang Seng stock index futures. Other instruments being considered are options on index futures and contracts based on Chinese commodities.

He is well aware that any new contract will stand or fall on its commercial merits. The Winnipeg exchange, a grain and oilseed market, tried unsuccessfully in 1979 to develop futures trading in Treasury bills and bonds. "The industry didn't seem to be ready to understand or use these markets and we would have had to change the make-up of the exchange membership to encourage trade in financial instruments."

Before his last job, Mr Ford had worked for ICI and served for two years as professor of agricultural economics at the University of Manitoba.

At the commodities exchange, he presided over the transformation of a chalkboard operation with 950,000 contracts a year into a modern, fully computerised system with more than three times the turnover.

Trading in Winnipeg is "80 per cent commercial and 20 per cent speculative" — the very opposite of Hong Kong in its heyday. "It's a question of balance," he says. "We'd have liked more speculative activity in our markets (in Winnipeg), and in this market we need more balance on the hedging, commercial side."

Mr Ford, who is married with two daughters, has swapped a 3,000-acre grain farm for a home in Hong Kong's smart residential district of Mid-Levels. His work had previously taken him to Tokyo but not to Hong Kong, a city he finds vibrant

His contract at the futures exchange is for a renewable two-year term. Will the market be back on its feet by then? "I'm confident that even at the end of 1989 we'll have significant recoveries in trading activities," he says.

Meanwhile he will continue to need the combination of firmness and diplomacy that has been essential for the job so far. Says a colleague: "He won't be easily put off by 1988 being a difficult year."

Alison Maitland

AGRICULTURAL COMMODITIES

Futures with China

COULD sweet-and-sour pork bellies, live hogs and frozen concentrated soya milk one day be on the menu of a thriving Hong Kong Futures Exchange?

As the door opens on the vast Chinese market, it is tempting to consider Hong Kong extending its role as a financial centre to the provision of hedging instruments for the mainland's rapidly growing commodities trade.

One of those attracted by the prospect is Mr Douglas Ford, the new chief executive of the futures exchange. "We have looked at the idea of seeing how we can structure the exchange ... to service China's needs and one area might be agricultural commodities," he says.

Finding the right commodity is not easy, however. The exchange launched trading in cotton, sugar, soybean and gold futures in the late 1970s. But the cotton contract closed down in 1981 for lack of interest, and trading in the other commodities has been thin. Only Hang Seng index futures, introduced in 1986, proved a success – until last October's debacle.

One new idea is for a rice contract, which would not be short of end-users in Hong Kong and the region. The difficulty is that as yet there is no quality control in Chinese rice, so it would be hard to establish a contract to the necessary common standard.

"International grain traders here in Hong Kong are concerned about trading Chinese commodities because of quality," Mr Ford acknowledges. "They also want to ensure that if they are short of Chinese rice or any other commodity they will be able to get delivery and that's a question mark in their minds."

Problems of delivery have become serious in the past 18 months or so. Mr Philip Baillieu, managing director of Wogen Hong Kong, specialist metals traders, says the mainland has become a "diabolical" trading partner. "Wogen has deliberately tried to decrease its trading activity with China

Continued on Page 7

Barry Riley on Hong Kong's potential as China's capital market

Aiming to be China's international financial focus

HONG KONG will need clever strategic control as well as resourceful business talents if it is to grab for itself a key role as China's international financial centre.

For years Hong Kong's financial markets grew more or less spontaneously under the hands-off approach of the colonial government. Expansion was rapid but unbalanced: a lively stock market and diversified banking system developed, but the bond market was rudimentary. Everywhere risks were comparatively high.

Now policies have changed significantly, and the need to develop a future role as a financial centre for China is a key reason why. Meanwhile, China's involvement with Hong Kong is symbolised by the towering spire of the Bank of China building, and is underpinned by the increasing complexity of the mainland-controlled business networks which are being built up within the territory.

At any rate, both parties to the 1984 Joint Declaration appear to be taking seriously the commitment that Hong Kong "shall retain the status of an international financial centre".

It is apparent, for example, that the Government is taking its responsibilities much more closely to heart. The stock market is being cleaned up and the banking industry is being brought into line with international regulatory standards, in each case with the objective of attracting increasing overseas participation.

It is something of a bizarre political accident that Hong Kong, in a remote location in South China, should be in a position to assume the role that was historically performed by Shanghai. Today, some of the dormant markets of Shanghai are being revived, and the city could well regain an important domestic role. But it will take many years before its international credentials can be restored, even if the political will exists for this to happen.

Some top financiers in Hong Kong argue that attaining a position as China's focus of international financial business is not simply a desirable commercial objective but could be fundamental to the Territory's chances of retaining its separate economic status in the years after 1997.

If Hong Kong is able to provide key services to the People's Republic, of a kind which cannot easily be reproduced elsewhere, its political future will be a great deal more secure.

However, Hong Kong has weaknesses as well as strengths, in particular its lack of a large economic hinterland leaves it short of natural flows of funds of the kind that have turned Tokyo's capital markets into some of the world's most influential. Taipei and Seoul have a good deal more potential than Hong Kong in this respect.

If Hong Kong is able to provide key services to the People's Republic, of a kind which cannot easily be reproduced elsewhere, its political future will be a great deal more secure

In particular the territory lacks a bond market of any significance, forcing mainland China to look to Tokyo, London or New York for long-term fixed interest finance.

Can Hong Kong correct its bond market deficiencies? There are several reasons for the problem. The natural home-grown Hong Kong dollar bond market is more or less non-existent, partly because the Government has hardly ever been a borrower (it habitually runs a fiscal surplus) and partly because Hong Kong companies are rarely of the size and creditworthiness to tap a high quality debt market.

These hurdles have been made harder to leap by the Government's tax policies whereby income on HK$-denominated debt is taxable, whereas interest on foreign currency bonds is not. Some say that this tax approach was originally formulated partly to protect Hong Kong's banks by encouraging intermediation (the banks are not liable to pay tax in the same way). The effect is to drive the bond market offshore.

Now the Government is to take another look at the implications of the tax structure. It is also proposing legislative proposals encouraging the funding of pension schemes, which might create greater demand for HK$ paper.

Elsewhere the authorities have gone to considerable lengths to reform the Stock Exchange, and to keep alive the Futures Exchange, a market which is scarcely important to Hong Kong's present functioning, but which is seen as a key element of a serious international financial centre. Singapore has one, for instance.

But Hong Kong's chief strength lies in the size and variety of its banking system, with representation, in one form or another, by more than half the world's top 500 banks. It has extensive capabilities in the areas of venture capital, and international deal-making for the corporate sector.

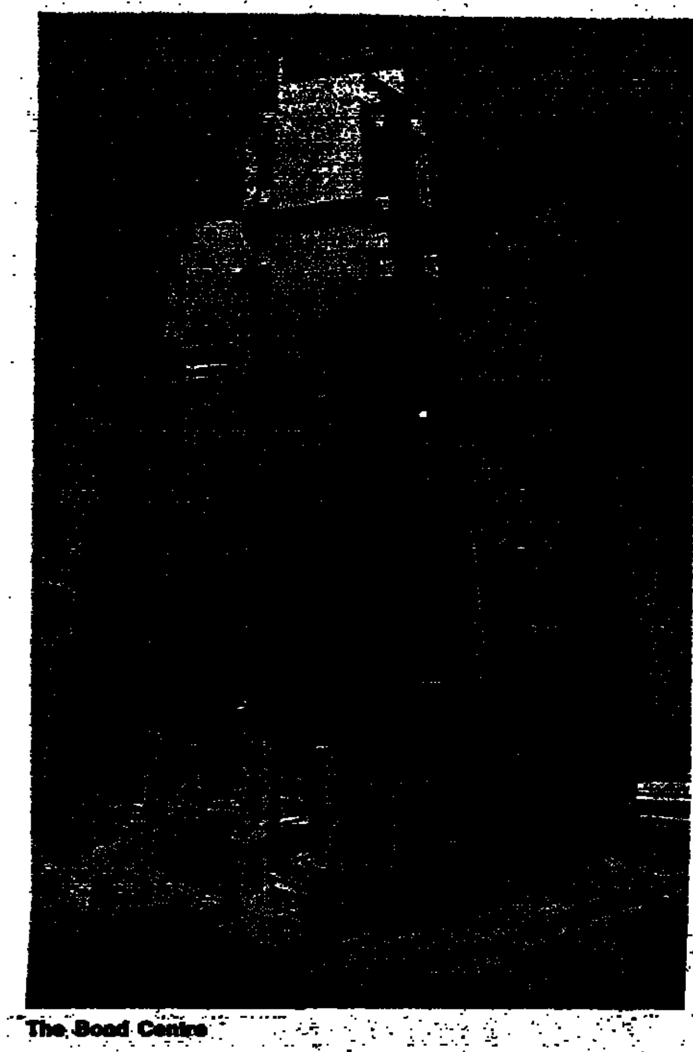
The stock market has substantial capital-raising potential, but in 1988 the market will raise only a tiny fraction of 1987's HK$40bn-plus, and mainland-owned companies have yet to tap this market on any scale, despite recurrent rumours that they may be about to do so.

A number of China funds have been set up, however, as intermediaries through which capital can be channelled to mainland enterprises.

The exact extent of Hong Kong's existing role in financing investment in China is, unfortunately, hard to quantify. But according to Alan McLean, Government economist, about two-thirds of all the foreign investment of some US$8.5bn in China up to the end of 1987 came from, or at least through, Hong Kong.

Guangdong province has been the main beneficiary, taking possible two-fifths of the total investment, and receiving as much as 80 per cent of this capital through Hong Kong.

Therefore Hong Kong's role as a regional financial centre for South China seems assured. But it may have more trouble in carving out a truly national role against the competition that is likely to develop within China over the next decade.



The Bond Centre

DEBT MARKETS

The development of a second front

WHEN Mr Ian Hay Davison arrived in Hong Kong to chair the Securities Review Committee in the wake of last October's crash, his brief was to make recommendations on the future development of the local stock market and the related stock index futures market.

However, when the findings were released in May, he briefly took time out to mention Hong Kong's other financial markets, pointing to considerable local activity in foreign exchange dealing, gold trading and the debt market. And it was the latter which was singled out for special attention, as a second front in the campaign to establish Hong Kong as the primary capital market for South East Asia.

Mr Davison recommended that the government should have the objective of sponsoring and stimulating the development of debt markets in Hong Kong, and review their regulation in order to remove any unnecessary impediments to development.

One widely discussed way in which the government could give a boost to Hong Kong's capital markets is by the introduction of treasury bills. The lack of government debt issues is seen as a drawback for the local debt market, which lacks the sort of benchmark prices they would provide.

The Hong Kong government traditionally works on the basis of balanced budgets, is currently running up large surpluses, and has rarely needed to issue debt. The last time it did so was in 1984, when HK$1bn-worth of bonds were issued to cover an unexpected budget deficit. These mature next year.

However, this year the government has been discussing the idea of issuing treasury bills, in what is seen here as part of a trend towards the setting up of a central bank. The idea of government debt instruments has been welcomed by local operators in the capital markets. "It would certainly stimulate the commercial paper market," commented Mr Karl Hurst, director at Schroders Asia. "It would provide a short-term benchmark," he said.

Regardless of whether the government goes ahead with debt issues, Mr Hurst sees a more immediate task facing it: that of removing obstacles to the development of the local debt market. The main bone of contention is a withholding tax on issues of commercial paper, which leaves local residents paying tax on gains from Hong Kong dollar-denominated issues.

The Hong Kong Capital Markets Association has had long-running discussions with the government on this issue, but the authorities have so far not yielded to its demands that the tax be withdrawn.

Paper is in the main held by banks

Another area of concern to the Association is the fact that permission from the Securities Commission is required for each issue of commercial paper, which can at times lead to considerable bureaucratic delays. "The capital market has grown within the confines of a fairly archaic regulatory structure," said Mr Hurst.

Whether these obstacles are in themselves to blame for the uncertain growth seen in the local capital markets is a moot point but, certainly, after runaway growth in the mid 1980s, Hong Kong's debt market has failed to live up to its bright potential.

The value of total issues of certificates of deposit and commercial paper fell off to HK$20.1bn last year, from HK$26.4bn in 1986. However, this year has been better, with total issues of HK$20.1bn for the first nine months of 1988.

The Mass Transit Railway Corporation is the biggest player in the local debt market, and recently had an A-plus rating from Standard and Poor's for a new HK$3bn dual-currency medium-term note programme. This was the first long-term issue for which the MTRC has been assigned a rating. Other principal issuers of commercial paper include the utility China Light and Power, and the South China Morning Post newspaper, which is part of the News Corporation.

However, the range of issuers remains fairly narrow, while the number of investors is small. One problem is that paper is in the main held by banks, which leads to an extremely stagnant secondary market. There is a lack of an institutional investor base.

Thus, even with some of the regulatory and tax impediments removed, it is possible that the lack of depth in the market might continue to hinder its development.

Hong Kong investors have traditionally preferred the chance of capital appreciation to income, perhaps reflecting the gambling mentality which pervades the Territory, and even tax changes may not be sufficient to interest them in the debt market.

And, as elsewhere in the world, the much-vaunted trend towards the securitisation of debt has slowed down, and more traditional fundraising exercises, such as the syndicated loan, have been reasserting themselves.

In his report Mr Davison cited a healthy debt market as enhancing Hong Kong's attractions to investment managers, and its status as a regional fund management centre. The removal of adverse tax treatment and regulatory obstacles, and the introduction of an interest rate futures contract to provide a much needed hedging mechanism, could all help in this regard.

With the obstacles cleared away, market forces could then be left to give the final verdict on whether Hong Kong's debt markets have a major role to play alongside the stock and futures markets in realising the Territory's ambition to become the pre-eminent capital market in South East Asia.

Michael Marray

Agricultural commodities

Continued from Page 6

this year because we keep getting burned," he says.

More than 50 per cent of their contracts with China have run into problems, ranging from reneging to lost or underweight shipments. Mr Baillieu attributes the problems to the Peking Government's decentralisation of import and export activities to the provinces. These newly established "profit centres", and the factories that supply them, are under such pressure to meet financial targets that they may revoke a contract in order to get a higher price.

Aggrieved international traders are not helped by the absence of contract law in China. "There is no responsibility system, so however much one complains, being able to do anything about it is impossible."

If China's physical trade lacks sophistication at provincial level, the opposite is true of the big state import-export corporations acting on the world's leading commodity exchanges.

"The state corporations understand extremely well what hedging means," says Mr John Mansfield, chief executive of Wardley Limited, part of the Hongkong Bank Group. "A lot of them deal directly with the markets in the US, and they also deal through brokers in Hong Kong."

With a population of over 1bn, China is potentially a huge player on the international markets and is careful not to reveal its hand.

Chinese futures trading through offices in New York, London and Hong Kong has developed rapidly in the last five years, according to Mr John Crawshaw, managing director of Cargill Hong Kong, the commodities firm.

As well as buying for consumption, the state corporations take trading positions, selling back onto the market if the price moves in their favour. In this China differs from the Soviet Union, which simply accumulates:

"They're not as sophisticated as the top Western trading companies, but the Chinese are learning awfully fast."

Opportunities for international trade are growing as China's population expands and demands more and better food. But its exports of such commodities as corn are the result of desperate internal transport problems. "China shouldn't export one single pound of corn, but it can't avoid it," says Mr Crawshaw.

North-east China exports 2.5-5m tonnes of corn a year, when the southern province of Guangdong will have to import up to 1m tonnes. The shortage of supply of many raw materials for food and industry helps explain why Peking has slapped hefty export duties on some commodities this year, a move that has exacerbated the instances of failed contracts.

If China's growing needs offer plentiful but risky trading opportunities, international brokers doubt that Hong Kong's proximity and communications will necessarily give it a larger slice of the cake.

They argue that it makes more sense for the Chinese to trade directly with terminal markets in the US and London in such commodities as soybeans, sugar, corn and metals, and to use Hong Kong as an intermediary when markets in other time zones are shut.

As for new contracts on the Hong Kong futures exchange, they could only succeed if they did not compete directly with centres like Singapore or Chicago.

Hong Kong might become more important if China achieved much more effective decentralisation, Mr Crawshaw suggests: "If a lot of these commodities became fully decentralised, then you might get provincial offices in China setting up futures trade through Hong Kong." For the moment these provincial players have neither the resources nor the sophistication to embark on such a venture.

There have been suggestions in the Chinese press that a commodity futures market should be established on the mainland to help counter production surpluses and shortfalls. Here again, though, transport is a problem.

The idea is pie in the sky, according to Mr Crawshaw.

Alison Maitland

John Elliott profiles the Hongkong and Shanghai Bank

From a symbol of stability to a symbol of change

FOR DECADES the Hongkong and Shanghai Bank has been the colony's premier financial institution and a symbol of Hong Kong's status as a major financial centre. Today that cannot be taken for granted. Now the bank is a symbol of change in the run-up to 1997, encapsulating the general uncertainty as the reality of Peking's role draws nearer and China begins to make itself felt.

No longer does the Hongkong and Shanghai have pre-eminent status as the colony's quasi central bank. No longer can it be confident that it symbolises a guaranteed future for Hong Kong, because its own future here is open to question. Symbolically, the new cloud-scraping Bank of China building crudely dwarfs the Hongkong's own extravagantly controversial three-year old HK$5.5bn (£420m) headquarters, designed by Norman Foster.

This is not to say that the Hongkong Bank is on the decline, although its shares have not been performing well this year. But partly because of its own international ambitions, and partly because of other changes including the approach of 1997, its image and future is not so clear cut as in the past. Much now depends on when and how it tries to expand the 14.9 per cent stake in the UK's Midland Bank which it took last December.

"We are unique – we are the only international bank based in Asia outside Japan," says Mr William Purves, the bank's proud Scottish chairman. "However you measure it, we are between 24 and 31 in world ranking and two-thirds of those ahead of us are Japanese because of the value of the yen. Only Citicorp is bigger than us in the US, so there we are the largest foreign bank and the second largest overall."

The whole of the group – called the Hongkong and Shanghai Banking Corporation – controlled assets of HK$837.4bn at the end of last year, with 51,950 employees in over 50 countries. It is run as a federation of autonomous units with, for example, the all-Chinese Hang Seng Bank based in Hong Kong, Marine Midland in the US, the Wardley merchant bank, and the James Capel broking business all having considerable operational freedom.

It is Hong Kong's only listed bank with significant overseas activities and for decades it has regarded itself as the final arbiter on the colony's banking affairs. Its status has been demonstrated by two popular remarks: "What is good for the Hongkong Bank is good for Hong Kong," and "Hong Kong is run by the Governor, the chairman of the Hongkong Bank and the chairman of the Royal Hong Kong Jockey Club, and not necessarily in that order."

But commercially the bank has had to face increasing competition from mainland Chinese and international banks. The supreme role, which stemmed from the Hongkong's position as the colony's quasi central bank, has also been whittled down. The role involves carrying out various functions for the government including issuing most of the colony's bank notes, acting as the government's main banker, and providing local banks with the central daily clearing system.

In July the clearing system was changed and the Hongkong was told to deposit each night with the government's Exchange Fund an amount of money not less than the balances deposited with it by the clearing banks. This means that the Hongkong no longer has the clearing balance of HK$1bn or more as investable funds of its own yielding perhaps HK$45m-50m a year at present levels of interest rates. But now that it is detached from government policy on the issue, it is more free to play the foreign exchange markets.

"There are some benefits from the change," says Mr Purves. "When we had that responsibility we also had a responsibility to act in the interests of the government when it was necessary to support the Hong Kong dollar in the foreign exchange markets." Now the bank could be more commercial.

"The balance of advantage of the change is against us rather than with us but it is not enough to be of any real importance," adds Mr Purves – though his foreign exchange dealer is more optimistic of a positive balance.

Mr Purves also reluctantly acknowledges the change in status. "The Government has made it clear we are still its main agent and its main banker. But in the eyes of some people there is a change in the overall role – OK, maybe there is a small dent."

The bigger question is the future of such a colonially-based bank after 1997. "In Peking earlier this year it could not have been made more clear to me by China's leaders, including Premier Li Peng, that they saw the importance of the bank in both Hong Kong and China," says Mr Purves. "They said they saw our note-issuing role continuing after 1997 and they did not see the People's Bank, which is China's central bank, opening up in Hong Kong."

However, the bank has made only tardy attempts to bring senior Chinese executives up to its top echelons and there is none near general manager level. It is also more interested in developing internationally than in trying to work its way into the mainland. "There are only limited possibilities in China, we must expand abroad," says Mr John Gray, finance director.

So no one in Hong Kong belives the bank has an easy future after 1997 and the decision last December to buy a 14.9 per cent stake in the UK's Midland Bank is seen primarily in a political sense as an attempt to carve out a new option for survival.

There is a three-year standstill on the 14.9 per cent being enlarged, though that could be waived by joint agreement, and there seems little doubt that the bank will want to merge more closely with the Midland sooner or later. The UK government, however, acting through the Bank of England, might well withhold agreement if it thought Peking would object, because there is considerable sensitivity among Chinese leaders about the UK running off with the most valuable Hong Kong assets before 1997.

The bank is of course owned by many small shareholders and would remain in the colony. But any takeover or reverse takeover with a London emphasis would be seen as controversial in emotional and political terms by the Chinese leaders, and until this is sorted out, little more progress seems likely to be made.

Banks are well known for building ostentatious headquarters as statements of corporate egotism. Mr Purves insists that rivalry on building heights between the Hongkong and the Bank of China is "an old game – its happened before". Nevertheless, the Bank of China's new block is also seen primarily as a political statement, heralding the overshadowing of the Hongkong in the future. The Midland link is the Hongkong's gateway to a different future – though exactly how and when that will develop is not yet clear.

The new Bank of China building is now in the final stages of construction. It will be Hong Kong's tallest building

BANK OF CHINA

Formidable force in a competitive sector

FEW THINGS symbolise the changes currently underway in Hong Kong in the run up to 1997 as neatly as the new Bank of China building, which is now in the final stages of construction. As Hong Kong's tallest building, and the sixth tallest in the world, it towers above the colony's central financial district, as if serving notice of the change in sovereignty from Britain to China which will take place nine years from now.

In the meantime, when the 70-storey building opens its doors in the middle of next year, it will provide suitably prestigious headquarters for the Bank of China Group, which is already a powerful force in the Hong Kong banking community.

The Bank of China has come a long way since the beginning of the decade, when China's open-door policies awoke it from slumber. Since then the the group has aggressively moved into most areas of the local banking industry, and succeeded in securing a significant slice of the Hong Kong banking cake.

Government figures, which break down market share by country of beneficial ownership, show that mainland Chinese banks accounted for 19.7 per cent of total deposits in 1987, up considerably from 15.5 per cent in 1985. In other areas such as mortgage loans, and trade finance, the group has been equally successful.

The Bank of China group is made up of the Bank of China's own Hong Kong branch, and 12 so-called sister banks. As well as competing head on, the 13 have developed different areas of expertise, in investment banking, capital markets and treasury management, in addition to the traditional trade finance and mortgage loan business.

One of the most active, particularly in its capital markets activities, has been the Bank of Communications, formerly a powerful Shanghai bank before 1949, which lay virtually dormant until the beginning of the 1980s. Another, the Posang Bank, has carved out a niche for itself in bullion, commodities and currency trading. Within the group is a stock-broking subsidiary, Chung Mao Securities, which was established in 1983 and is a member of the Stock Exhange.

Each of the sister banks also uses its regional connections within China to win business, making use of close relationships with individual special economic zone authorities.

Watching over this loose confederation is the Bank of China's Hong Kong and Macau regional office, which can hand down directives to members of the group, even if generally leaving the banks to run their day-to-day business as they see fit. This control was illustrated earlier in the year, when cutthroat competition in mortgage finance and foreign currency deposits caused alarm within the higher echelons of the Bank of China, leading to new guidelines being laid down.

"Although the BOC group has the financial capability to undercut and buy into the market, it seems to have realised that its aggressive strategies might not be beneficial to the long-term objective of maintaining Hong Kong's position as the leading financial centre in the region," noted Mr C.K. Law, deputy director of economic research at BT Brokerage in Hong Kong. "Some sort of self restraint may develop in the medium term," Mr Law commented.

This desire to help promote stability and prosperity in Hong Kong has been illustrated in the past by its involvement in two bank rescues. A majority stake in the Union Bank was bought by a Sino-American joint venture, while the Kah Wah Bank was taken over by China International Trust and Investment Corporation, a mainland rival of the Bank of China.

Another example came during last October's stock market crash, when the Bank of China stepped forward as one of the contributors to a second tranche of HK2bn (£153m) to the lifeboat fund to rescue the futures exchange. In the event this was never needed, but the BOC's willingness to lend support to financial stability in Hong Kong was clearly underlined.

Ironically, the Bank of China group was an indirect beneficiary of the banking crisis of the mid-1980s, which saw customers switching to the more powerful banks in the wake of problems experienced by many smaller banks during that period. The Bank of China, along with the Hongkong and Shanghai Banking Corporation and its subsidiary the Hang Seng Bank, were the two principal beneficiaries of this so-called flight to quality.

With its network of several hundred branches throughout the Territory, the Bank of China group forms a formidable force in Hong Kong banking, and provides a well-diversified range of services.

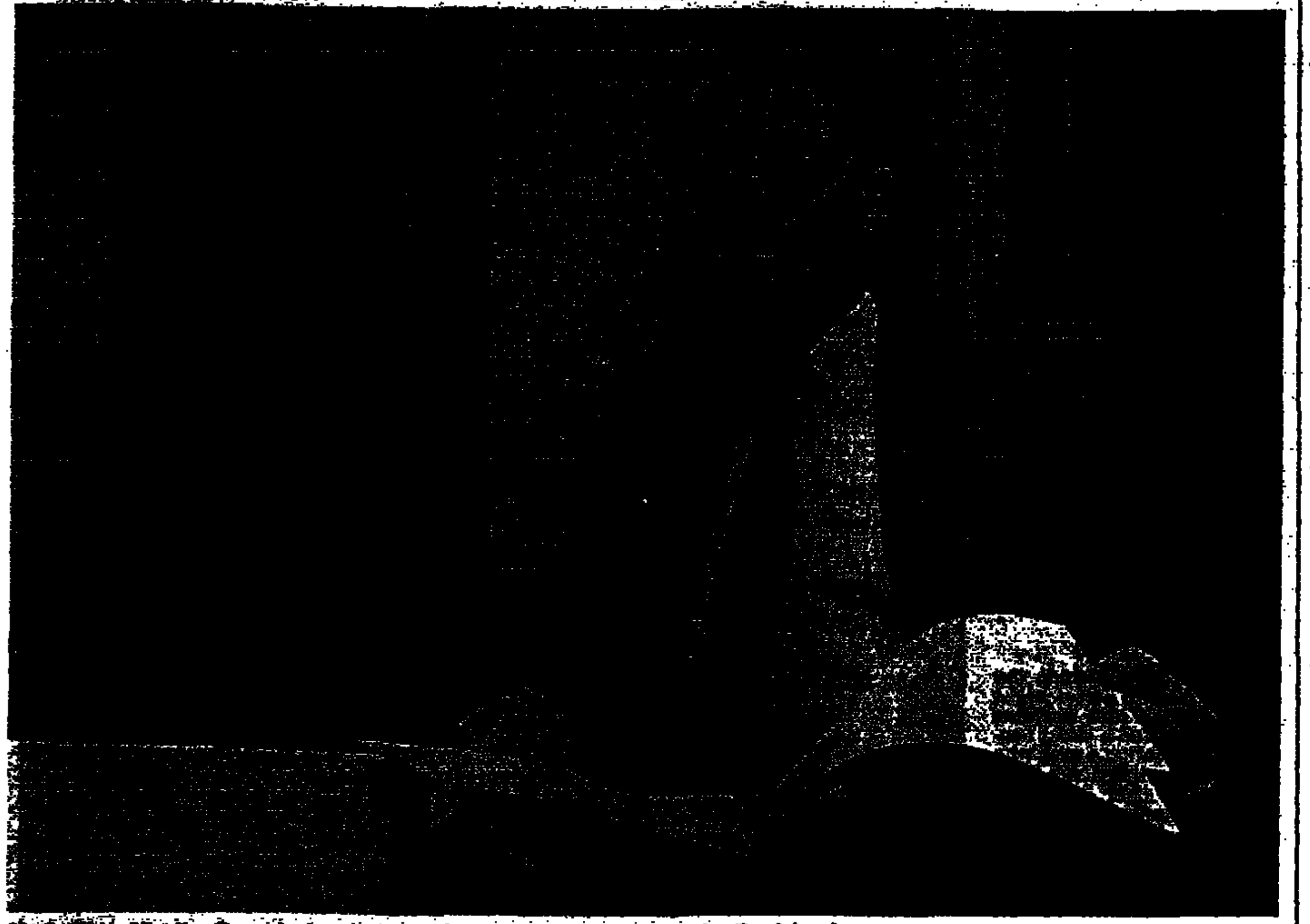
As for the future, the Bank of China looks to be particularly well placed to benefit from future economic growth in the Territory, given the increasing level of interdependence between Hong Kong's economy and that of China.

The number of Hong Kong manufacturers with operations over the border has increased dramatically over the past few years. Hong Kong's trade growth is currently being led by re-exports, giving the Bank of China group an extra competitive edge. In addition, the presence of Chinese companies in Hong Kong has been on the increase, again presenting opportunities to banks with mainland connections.

As Hong Kong's traditional role as an entrepôt for China reasserts itself with new-found vigour, the Bank of China looks better placed than most to emerge as one of the winners in the Territory's highly competitive banking sector.

Michael Murray

Michael Marray on the local banking sector



Mr Anthony Nicolle, Commissioner of Banking: 'An insurance policy for the future'

Even tighter rules planned

JUST UNDER two months ago the Hong Kong Government introduced new capital adequacy requirements for the local banking sector. The move was designed to bring the colony into line with international standards.

Having had two years advance notice of the changes, local banks and deposit taking companies were already comfortably within the new limits be the September 1 deadline.

But, despite the lack of fanfare, September 1 will be remembered as an important date for the local banking sector, which illustrated the Government's determination to protect Hong Kong's reputation in international banking, and avoid any future occurrence of the bank collapses seen here in the mid-1980s.

Even tighter rules are planned for the future, with the intention of co-ordinating local requirements with those proposed by the Basle Committee on Banking and Supervisory Practices. The current rules stipulate that all banks and deposit taking companies incorporated in Hong Kong must maintain at any time a capital adequacy ratio equivalent to not less than 5 per cent of its risk weighted assets.

"It provides an important benchmark for banks in Hong Kong to ensure that they do pay proper regard to the amount of capital they need to support their businesses," said Mr Anthony Nicolle, the Territory's Commissioner of Banking. "It is an insurance policy for the future," he said.

Certainly, within the present economic environment, few serious problems seem likely to emerge in the banking sector, which has felt the benefit of three years of runaway growth in Hong Kong. Despite some loss of momentum this year, the traditionally conservative government forecast of GDP growth weighs in at an impressive 8 per cent for 1988, after two consecutive years of double-digit increases.

One of the major features of 1988 has been the boom in mortgage lending, with many large new residential complexes coming on stream during the year, and home prices on the increase. Trade finance has been another strong area, with domestic exports still on the increase, and a boom in re-exports underlining Hong Kong's role in China trade.

Loans and advances increased by 8.6 per cent in the second quarter, with loans to finance visible trade growing by 11.4 per cent. An increase of 9.2 per cent was registered for loans for residential property, although activity has slackened since because of rising interest rates. The prime rate rose from 5.25 per cent in January to 9.5 per cent by August, allowing banks slightly to widen the margin between their best lending rate and deposit rates.

Foreign currency deposits have proved a big favourite in 1988, partly in response to improved facilities on foreign currency deposits offered by many banks. During the 12 months ended June 1988 total deposits in all currencies grew by 22.4 per cent.

The results of the major listed banks, which offer a rough guideline to growth despite undisclosed transfers to secret inner reserves, have certainly reflected the buoyancy in the economy. At the half year stage, profits of the Hongkong and Shanghai Banking Corporation were 18.6 per cent up, while the Hang Seng bank was 17.1 per cent ahead and the smaller Bank of East Asia up by 15 per cent.

Despite the rosy economic picture, Hong Kong's banking sector is not for the faint-hearted, with intense competition making for extremely fine profit margins. Rapidly increasing overhead costs promise to make the environment even tougher in the future. An acute labour shortage has sent wage costs soaring, while the effects of emigration have left banks trying to fill gaps left by staff they have taken considerable time and money to train. Soaring rental levels for office and branch networks are another headache for the industry.

Local banks saw in the New Year the setting up of a mechanism for the imposition of negative interest rules, in order to fight off speculation on a possible revaluation of the Hong Kong dollar. In the event, the mere threat of a levy on large Hong Kong dollar deposit balances was enough to send speculative funds flowing out of the territory, and underlined the government's determination to resist any challenge to the linked exchange rate.

This was also reflected in the July changes to the clearing arrangements in the local banking system, which have given the Government greater control over the money supply. These changes, and the modest introduction of Treasury Bills, illustrate a willingness by the Government to play a more active part in the banking sector, in addition to its increased activity at the supervisory level.

The government still owns two banks rescued during the crises of the mid-1980s, and these serve as a reminder of the shakeout in the Hong Kong banking industry only a few years back.

With more vigilant supervision, and the new capital adequacy rules in place, officials hope that any economic slowdown in the future will be comfortably withstood by the banking sector. "In the previous round banks which were intrinsically weak went to the wall," said Mr Nicolle.

But with new rules in place, Mr Nicolle feels that he has reason to be a little more relaxed about facing up to any economic downturn than many of his predecessors at the Banking Commission.

EMIGRATION

Many leave for a passport

ABOUT 45,000 local Chinese people in Hong Kong are this year voting with their feet. Despairing of the British Government's handling of democracy in the colony, and fearful of the post-1997 plans of what they call "the Communists" from Peking, they are leaving for supposedly greener pastures in places such as Canada, the US, and Australia.

The decision to go is being taken by about half the 45,000 who are the wage earners. The rest are non-earning women and, most important of all, children. An unknown proportion come back at some stage. The most common target in the brain drain is a foreign passport, plus a better education for the children so that they have easier options than their parents had in their youth.

"Over 70 per cent of the people living in Hong Kong are here because they have run away from a Communist regime – many came illegally, some swam. Most have relations in China so have had reports of what is happening there. So as soon there is a prospect of being brought back into China, you can see the reaction," says Mr Martin Lee, the colony's most outspoken liberal campaigner for democracy, and a member of the committee drafting the colony's new basic law.

"There have been so many upheavals in China that now the British are going to pull out, people have no confidence in their future. People fear the Communists will not leave us alone to run the place," adds Mr Lee.

"Some people will come back with a passport but they are not necessarily going to stay here. Those that can afford to do so will wait and see and only stay here while there is money to be made."

A senior civil servant puts it more pithily: "Those who come back with foreign passports are the human equivalent of hot money – liable to flow out suddenly and quickly if things go wrong."

The exodus is hitting companies, especially in the banking and electronics sectors, and is compounding problems caused by Hong Kong's general labour shortage. The Hongkong and Shanghai Bank, for example, has lost 10 per cent of its 700 executive cadre last year and this year, and many other companies have similar experiences.

"The brain drain to Canada and Australia is contributing about 15 to 20 per cent of our staff turnover in 1987 and 1988, adding to the problems of the staff volatility and costs rising faster than inflation in an employee-driven market," says Mr Steven Hunt, senior vice president of the Bank of America.

Some companies are trying to retain staff by helping them obtain passport, for example by offering posts as secondments or sabbaticals abroad for the periods needed. One or two Chinese companies have even diversified their operations into Canada to make this possible. But most reject such ideas as a significant solution. All companies say they can manage by training-up less experienced staff. "The real minus is the loss of experience – the plus is that it makes room for the bright young people who are bursting out in Hong Kong," says Mr William Purves, chairman of the Hongkong Bank.

The problems are making a few companies consider moving at least some of their operations out of Hong Kong at a time when the approach of 1997 has been making some multi-nationals have second thoughts about whether the colony is an ideal long-term regional location.

There has always been migration from Hong Kong, but the rate has increased sharply in the last couple of years because of two factors.

The first has been the approach of 1997 and the preparation of a draft permanent Basic Law for the colony, coinciding with the Hong Kong government deciding that political democracy should not be introduced quickly. While there is a feeling that Peking is prepared to make several concessions on the drafting of the law, people have little confidence in what the Chinese leaders of 1997 will do.

Second, Canada (which takes more than 50 per cent of the migrants), the US (about 25 per cent), and Australia (approaching 20 per cent), have each brought in new immigrant arrangements and quotas in the past three years. These have made it easy for Hong Kong's highly educated population to qualify for admission.

The British National (Overseas) passports and other travel documents held by many Hong Kong people do not qualify them for residence in the UK so, wanting an insurance against the future, they are going elsewhere. The 45,000 figure for those leaving this year is more than 50 per cent up on last year and is expected to lead to a net outflow total in excess of 40,000 – net outflow being the amount by which the number of emigrants exceeds the total of people returning to their homes from abroad.

Last year's net outflow figure is estimated at 27,000, which is the difference between 30,000 emigrating and 3,000 returning. Between 1980 and 1984 there was an average net outflow of 20,000 a year, followed by 11,000 and 23,500 in 1985 and 1986.

The assessments are being made by a special government task force from three main sources: applications from people for certificates of no criminal convictions, which are needed by host countries; visas issued by the seven main host countries; and statistics from emigration officers. There is a time lag of up to a year between the no crime certificates being issued and people actually leaving.

On the basis of these calculations, the government now estimates that 46,500 applications made by would-be emigrant adults for the certificates last year, when 39,000 visas were issued, will lead to 45,000 people leaving this year. This takes into account emigration officials' latest figures and includes children who roughly counter-balances the total of those who apply for no crime certificates but do not actually emigrate. A similarly high total is expected next year.

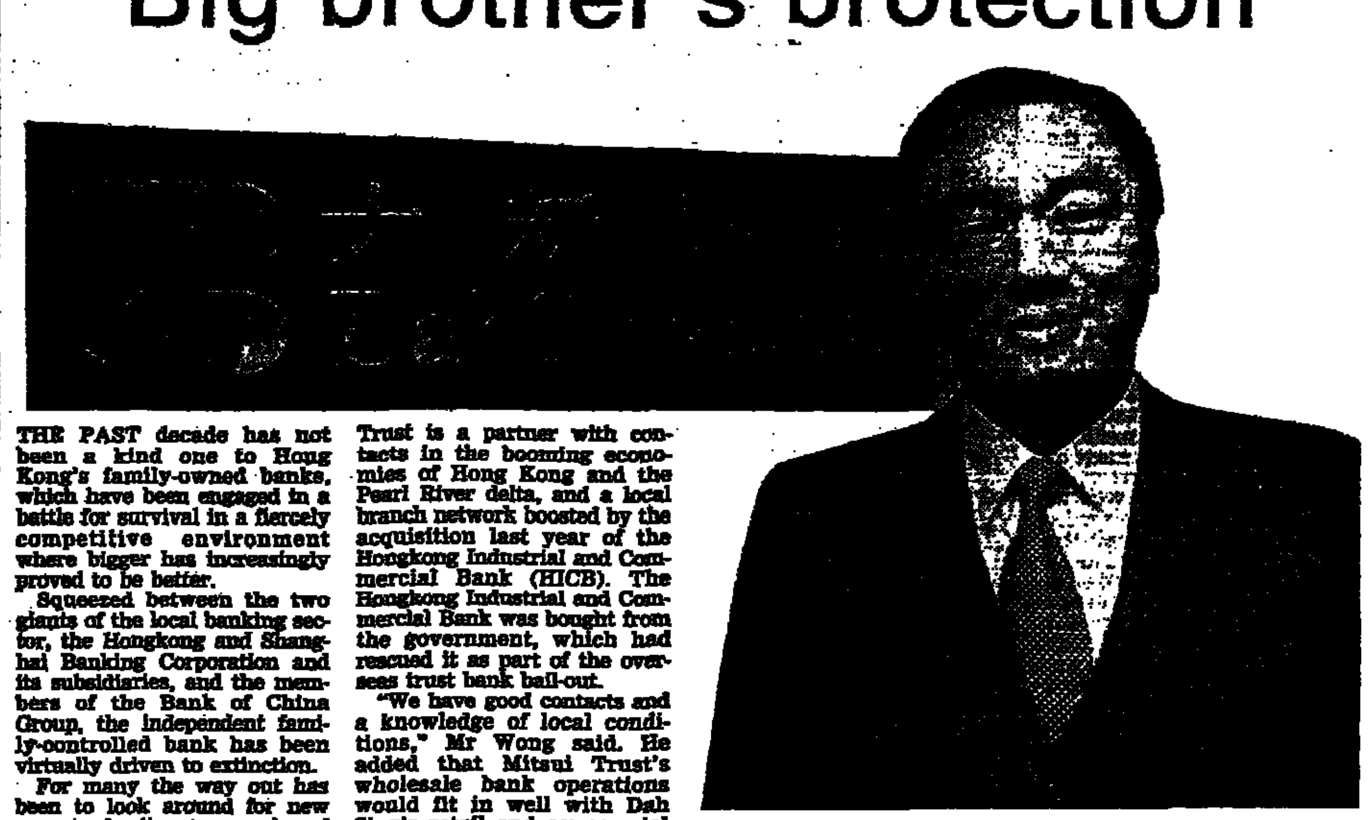
But not everyone is happy when they go abroad. Sometimes entrepreneurs leave their families in Canada to obtain passports and come back to continue their businesses here. Few professional people manage to obtain comparable jobs to those they have given up, according to their friends in Hong Kong, and they often have to accept a 60 per cent drop in salaries. "I don't want to wash dishes," is a frequently heard remark from young men in their 30s who have not gone.

But the pressure to go is still strong and the government, which has been forced to face up to the issue, has now accepted that the brain drain will continue. Its answer is to try to improve education and other facilities in Hong Kong in order to stem the outward flow, to provided replacements for those who leave, and to attract people back once they have their new passports.

John Elliott

FAMILY-OWNED BANKS

Big brother's protection



Mr David Wong, chairman of Dah Sing Bank: 'It has always been a major concern how to expand'

THE PAST decade has not been a kind one to Hong Kong's family-owned banks, which have been engaged in a battle for survival in a fiercely competitive environment where bigger has increasingly proved to be better.

Squeezed between the two giants of the local banking sector, the Hongkong and Shanghai Banking Corporation and its subsidiaries, and the members of the Bank of China Group, the independent family-controlled bank has been virtually driven to extinction.

For many the way out has been to look around for new parents, leading to a series of takeovers involving international banks during the past few years. However, for some a big brother has sufficed, having found a partner willing to provide the necessary backing whilst remaining a minority shareholder.

The most recent example of this involved the Dah Sing Bank, which announced in September the sale of a 22 per cent stake in its parent Dah Sing Financial Holdings to the Mitsui Trust and Banking Co.

"It has always been a major concern how to expand," said Mr David Wong, chairman of Dah Sing. "Small family banks can grow but we would like to turn more corporate," he said. "And more capital is always welcome."

The HK$215m (£16m) raised by the issue of new shares will be used to reduce the current bank indebtedness of Dah Sing Financial Holdings, as well as providing additional working capital for the group. The amount may be small, but it lines up behind Dah Sing, Japan's oldest trust bank, which is the 14th largest in the world with total assets worth over HK$1,851bn.

The attraction for Mitsui Trust is a partner with contacts in the booming economies of Hong Kong and the Pearl River delta, and a local branch network boosted by the acquisition last year of the Hongkong Industrial and Commercial Bank (HICB). The Hongkong Industrial and Commercial Bank was bought from the government, which had rescued it as part of the overseas trust bank bail-out.

"We have good contacts and a knowledge of local conditions," Mr Wong said. He added that Mitsui Trust's wholesale bank operations would fit in well with Dah Sing's retail and commercial activities. "We will offer our clients a more comprehensive service," he said.

Dah Sing's strategy has been to build up its branch network by positioning branches adjacent to stations on the Mass Transit Railway System, the Territory's underground railway. The 20 new branches of the HICB fit in well with the existing Dahsing branches.

For others the way out has been to look around for new parents

Japanese banks in particular have been active in finding partners in existing local banks, forming a powerful combination of local knowledge and Japanese financial muscle. One reason is that new licenses to foreign banks restrict them to one branch, which makes the takeover of an existing bank an attractive option. Dai-Ichi Kangyo Bank owns 95 per cent of the Chekiang First Bank, while Fuji Bank has a 55 per cent stake in Kwong On Bank.

However, Mitsui Trust is not the only Japanese bank to content itself with a minority position in a local banks. The Mitsubishi bank has a 25 per cent stake in the Liu Chong Hing Bank, while Tokai Bank holds 15 per cent of the Commercial Bank of Hong Kong. American Wells Fargo has a 20 per cent stake in the Shanghai Commercial Bank.

Probably the most successful family bank left in the territory is the locally-listed Bank of East Asia, which has two strategic minority shareholders, Société Générale and Bank of China subsidiary China Development Investment.

Like all local banks these remaining family-controlled banks are currently grappling with rising wage costs and rentals, as well as the new capital adequacy requirements which were introduced a few months back. These were brought in to avoid a reoccurrence of the mid-1980s bank collapses, after intense competition had pushed many smaller banks into a high risk approach to their business in order to stay competitive. Some collapsed as a result.

"I welcome the new capital adequacy rules," commented Mr David Wong. "It will bring us in line with the rest of the world. Since the 1986 banking ordinance the industry as a whole is very much more healthy," he said. Certainly, given Hong Kong's buoyant economic conditions, banks in Hong Kong have all been enjoying booming business, even if margins remain tight as a result of competition.

It remains to be seen whether the smaller banks can hold on to market share, or if life caught between the Hongkong Bank and the Bank of China is going to prove too difficult. An economic slowdown will prove to be the testing ground for these small banks, even if they now have a big brother to stand beside them.

Michael Marray

Michael Marray provides a business traveller's guide

How to survive as a foreign devil

FEW CITIES devote themselves to business as completely as Hong Kong. With its first class air connections, the latest in modern telecommunications, widespread use of English, and compact geography, the colony is an easier place than most to slip into for a few days' business.

But among the skyscrapers of the central financial district it is easy to forget that you are a long way from home, and a *gweilo* – loosely translated as "foreign devil" – in the sometimes unfathomable East.

Misunderstandings resulting from differences in language or culture can and do occur, in business dealings as well as everyday living, so prepare for a few frustrations along the way. Procrastination and delay may be encountered if a deal is not going to be struck, where a simple "no" might be expected in the West. However, once things do get moving, they are likely to proceed at an efficient and enviably fast pace.

When organising a visit to Hong Kong it is advisable to book air tickets well in advance, because aircraft are often full, as are hotels during the peak autumn season.

Remember to bring a large supply of namecards, which are ritually swapped everywhere. Help in establishing business contacts can be found at the Hong Kong Trade Development Council's research library in the Great Eagle Centre in Wanchai. Services provided here include computerised matchmaking between prospective buyers and sellers, in which details are fed into the computer which then prints out a list of possible contacts.

Climate

Hong Kong is in the tropics – though only just – being situated a few miles inside the Tropic of Cancer, on approximately the same latitude as Muscat and Havana. The best months, if you are able to choose the timing of your visit, are October, November and December, when Mediterranean-style summer weather is to be had. It can get cold for a few weeks between January and March, but at most other times it is uncomfortably hot and humid.

Despite the climate, Hong Kong is very much a business suit town, and short-sleeved shirts are advisable as you carry your jacket through the sweltering heat to the sanctuary of the next air-conditioned building. Regardless of the time of year be sure to pack a pullover, because even when it is 90 degrees outside, the air-conditioning can create absurdly sub-Arctic conditions inside your hotel. Umbrellas are cheap and readily available from street stalls, and can be bought as and when needed to fend off Hong Kong's unpredictable and torrential downpours.

Getting around

Hong Kong taxis are cheap and plentiful, but can be hard to find at shift changeover time when drivers carry "out of service" signs in their windows. If it starts to rain many of the Territory's other 5m inhabitants will want one too, so allow extra time for your journey.

All taxis are metered, with flag down at HK$5.50 for the first two kilometres. An extra HK$20 is charged for going through the Cross Harbour Tunnel. Should your taxi fare ever come to more than HK$70 think hard before parting with your cash. It is usually a good idea to get your destination written down in Chinese for the benefit of taxi drivers.

The underground Mass Transit Railway is clean, simple and efficient, as well as being fast. Beat the traffic, particularly for journeys involving crossing the harbour, and buy a HK$50 or HK100 stored-value ticket to avoid queuing for tickets. For a more leisurely journey, take the Star Ferry which plies the harbour between Hong Kong Island and Kowloon, for a perfect view of both waterfront skylines.

The Kowloon Canton Railway, combined with taxis at either end, provides efficient travel all over Kowloon and the new territories, which extend 30kms up to the Chinese border.

Connections into China are provided by three airlines, the Hong Kong-based Cathay Pacific and Dragonair, and the mainland Chinese CAAC, which is not highly recommended. High-speed ferries and trains also go to nearby Canton. Kai Tak Airport is overloaded and not too comfortable, so until plans for a new one come to fruition, restrain yourself from dashing through into the departure area too early.

Food

Food is the main challenger to business as the primary obsession of Hong Kong, and every possible nationality and variety of food is to be found, to suit every budget. At the top end of the market the business traveller will find French cuisine at Pierrot in the Mandarin, and Plume at the Regent. The Eagle's Nest in the Hilton and Man Wah in the Mandarin are two of the best Chinese restaurants in Central. Always book for lunch, especially in Central where finding a seat anywhere at lunchtime can be difficult. TV and Entertainment Times, published weekly, has an extensive list of restaurants, as well as films and events.

At special events brandy is consumed conspicuously, and is usually the expensive variety, even if cola is added. For most other meals mineral water and Chinese tea are preferred. For something stronger San Miguel and Carlsberg beers are brewed locally, while Tsingtao (sometimes spelled Qingdao) comes from northern China, a legacy of an old German concession in the port of the same name. Service charge is added to bills but tipping is still expected in most restaurants.

Shopping

Hong Kong is often called a shoppers' paradise, and for those who think of paradise as an afternoon's shopping, the territory is brimming over with stores selling cameras, watches, compact discs and video and hi-fi equipment. Try to compare prices in several shops and, when bargaining, which is done in all but the high-fashion clothes shops, hide away your tourist map and stress that you are a resident and therefore expect a discount.

Sam's The Tailor is an old favourite for made-to-measure suits and shirts, with Prince Charles, George Michael and Henry Kissinger numbered among the customers whose photographs line the tiny shop in Burlington Arcade off Nathan Road in Kowloon. A can of beer accompanies all fittings and discussions with Sam.

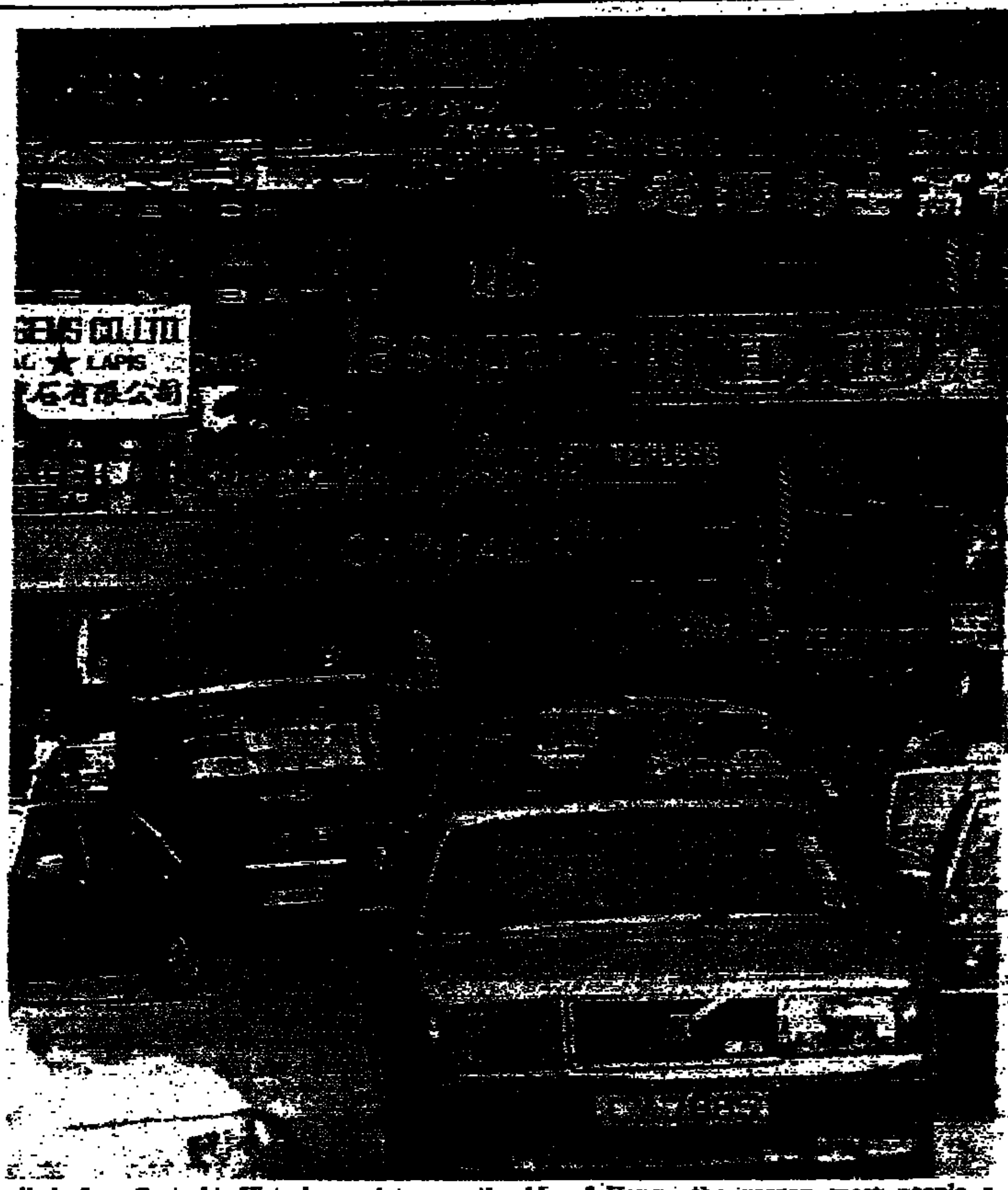
Free time

Places to visit include the bustling Temple Street night market, which also features street theatre and a street dentist, not to mention a man who cures all ills with a rub-down in Johnny Walker Red Label Whisky. Temple Street runs parallel to Nathan Road in Kowloon near Jordan MTR Station. Hong Kong is a very safe city, and muggings are a rarity, but do hang on to your wallet around this area.

If you are looking for a night on the town the many clubs and restaurants around Lan Kwai Fong in Central are usually busy, especially at weekends. Known locally as "gweilo town", the yuppies are out in force on a Saturday night – though their Chinese counterparts, "chuppies", also make a noticeable minority. Be there or be somewhere else.

In the Wanchai bar district – remembered in the 1950s as the Suzie Wong area – the nightlife runs until well into the early hours. Here it is always advisable to establish drinks prices before ordering. If you can see warships berthed in the harbour Wanchai may turn out to be overflowing with off-duty sailors.

For a more sedate evening take the peak tram, which climbs from Central to Victoria Peak, and savour the superb view of the Territory from the top. Food and drink can also be savoured at the Peak Tower Restaurant, though the quality of the view may exceed that of the food.



During the day Heliservices provides a truly birds' eye view of Hong Kong, charging HK$3,000 for a half-hour helicopter ride for up to four passengers. Cheaper but slower is the number six bus from the terminus under Exchange Square, which winds precariously over the mountains to Stanley or Repulse Bay, on the quieter south side of Hong Kong Island.

Stanley market provides plenty of bargains in clothing and souvenirs. Ferries from the outlying Islands Pier in Central will carry you at a leisurely pace to Lantau or Cheung Chau for some peace and a quiet meal, or perhaps some hill walking. If you have longer to spare jetfoils to the Portuguese enclave of Macau take only 45 minutes. You will, however, need your passport, and it is advisable to book hotels in advance at weekends. Macau's Portuguese architecture and influence make for a relaxing time, but the reason most people g[...] there is for the gambling in [...] casinos.

Back in Hong Kong the on[...] legal form of betting is on th[...] horses, with racing takin[...] place from September to Ma[...] on most Saturdays a[...] Wednesdays, either at Hap[...] Valley on Hong Kong Island [...] at Sha Tin in the new terri[...]ries. The excitement at [...] crowded race meetings [...] intense, and perhaps it is he[...] that it is possible to see t[...] Hong Kong people in their e[...]ment, in what is, after all, [...] city of gamblers, whether [...] the racecourse or out in t[...] world of business.

PROPERTY

Prime locations are full

STRANGE THINGS can happen in the race for space in Hong Kong's soaring property market.

Take the case of the million-aire banyan tree. The ancient tree stands in Pacific Place, a site in the financial district where Swire Properties is developing 5m sq ft of office towers, hotels, apartments, shops and car park.

The legendary banyan is the tree under which Buddha sat, and the Hong Kong Government decided this one must stay – a symbol of its commitment to the environment. Swire had to spend about £2m encasing the tree in a "flower pot" of steel piles to protect it from tunnelling beneath its roots.

The commercial property sector has been growing this year like there was no tomorrow. Yet it is not so much the prospect of Chinese rule in 1997 that has created the sense of urgency as an acute shortage of supply.

Central district, the prime office location, is full. In the three biggest new office developments in downtown Hong Kong – the unfinished Bank of China, the Bond Centre and the first phase of Pacific Place – space is either largely or fully committed. Several smaller developments are in hand – including Hongkong Land's HK$2bn shopping and office complex in Ice House Street – but not enough to meet expected demand.

"The vacancy rate has come down to a historical low of less than 1 per cent in Central, and that's not really a very healthy situation," says Mr Alan Hill, managing director of Jones Lang Wootton, property consultants. "The market looks as though it's going to be pretty much undersupplied over the next three years."

Hong Kong typically absorbs 2.3m-2.5m sq ft of grade A office space a year, he says. New supply next year will be only 2m, rising to 2.8m in 1990, then falling to 1.7m in 1991. Only in 1992 will it rebound, to 4.7m.

Beyond that is the prospect of new space in the urban renewal programmes of the Land Development Corporation. The LDC, a statutory body launched in January, has seven joint ventures with the private sector at tender stage and these should produce 3-4m sq ft of office space west of Central and in Tsimshatsui on Kowloon side in about five years' time. The Government also has plans, still under discussion, to reclaim a further 96 hectares of the harbour.

That all seems a long way off for those caught in the current squeeze. Demand during the past year has been so strong that the stock market crash produced only a hiccup in the surge in property prices.

The legendary banyan tree: protected from tunnelling

Indeed, residential property benefited as investors switched out of equities.

Economic growth of 13.6 per cent last year – with 6-7 per cent forecast this year – has helped keep the market buoyant as companies expanded.

Despite the rise in values, the uncertainties of 1997 mean that property is still relatively cheap and yields high – at 7 per cent for prime commercial space – compared with centres like Tokyo and Singapore. Big companies such as IBM are relocating their regional operations in Hong Kong, seeing it as a gateway to the vast Chinese market. Direct foreign investment in property – this year notably from Japan, Taiwan, Singapore and Indonesia – has also acted as a stimulus.

The result has been a 57 per cent increase in office rents and a 59 per cent rise in capital values over the past year, with rents in the prestigious Central district shooting up by 73 per cent. The first tenants in Pacific Place 18 months ago paid monthly rent of HK$18-HK$20 per sq ft; the most recent have had to fork out HK$35-HK$40.

Even that is still well below the top rate of HK$58 per sq ft being asked in the prime Central site of Exchange Square – a premium which undermines the argument that the commercial centre of Hong Kong is shifting.

The Swire group is keen to establish Pacific Place – located in Admiralty about 15 minutes by foot from Exchange Square – as the eastern wall of a new, enlarged financial heartland. Overspill from Central eastwards into Admiralty and Wanchai and over the water into Kowloon has been going on for some years. But rent differentials have generally been preserved, and there are plenty of people prepared to wager that "prime Central will always be prime Central".

Fewer are willing to bet on the outlook for prices. Even in the vigorous office sector, estate agents see signs of slackening demand as securities firms feel the pinch of low business and other tenants complete their expansion needs.

The retail and hotel sectors are currently enjoying a bonanza. Retail rents have risen by 52 per cent since last October on the back of strong local demand for goods and an influx of high-spending tourists from Taiwan and Japan.

Finding a hotel room can be a nightmare in peak season, with the occupancy rate at 91 per cent in the first six months of this year compared with a worldwide average of 70 per cent. The number of visitors to Hong Kong is expected to ju[...] by 1m to 5.5m this year.

But the hotel market may [...] approaching its peak. About [...] new hotels are due to open [...] 1991, when the occupancy r[...] is expected to fall to 75 [...] cent. Conscious of the comp[...]tion, most hotels have li[...] their price increases to 15 [...] cent this year, after 20 per c[...] in 1987.

In the residential mar[...] interest rates are a key c[...]cern. A 2 point rise in [...] prime rate to 9.5 per c[...] depressed sales during [...] summer, although activity [...] been reviving recently.

At the luxury end, do[...]nated by rental, prices ha[...] been driven up by short sup[...] and an influx of expatria[...] filling gaps created by [...] "brain drain" of young pro[...]sionals from Hong Kong. [...] completion of a number [...] large apartment blocks by [...] middle of next year sho[...] ease the upward pressure, [...] least temporarily.

The lower end of the resid[...]tial market, where sales [...] dominate, is supported [...] growing affluence, a prefere[...] among young people to set [...] their own homes, and a se[...] that ownership could of[...] security in the approach [...] 1997 for those who cann[...] leave. But any further ste[...] rises in interest rates could [...] damaging, both here and in [...] export-sensitive industrial s[...]tor.

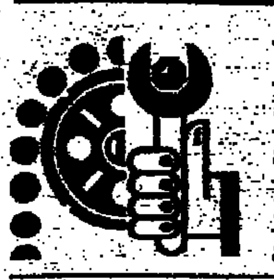
Growing inflation in Ho[...] Kong and spiralling pri[...] across the border in China [...] likely to push interest ra[...] well into double figures n[...] year, according to Mr Phi[...] Tose, chief executive of C[...]corp Scrimgeour Vickers, [...] securities firm. That wou[...] make property yields le[...] attractive to investors. "T[...] stock market is telling us th[...] property prices are going [...] fall," he says. "The prope[...] market usually tops out 9 to [...] months after the stock m[...]ket."

Property stocks, the do[...]nant sector in the equity m[...]ket, are trading at an unu[...]ally large discount to net as[...] value of 30-40 per cent. F[...] some this simply reflects t[...] fact that the Hong Kong equ[...] market has been in the d[...]drums, like its counterpa[...] worldwide.

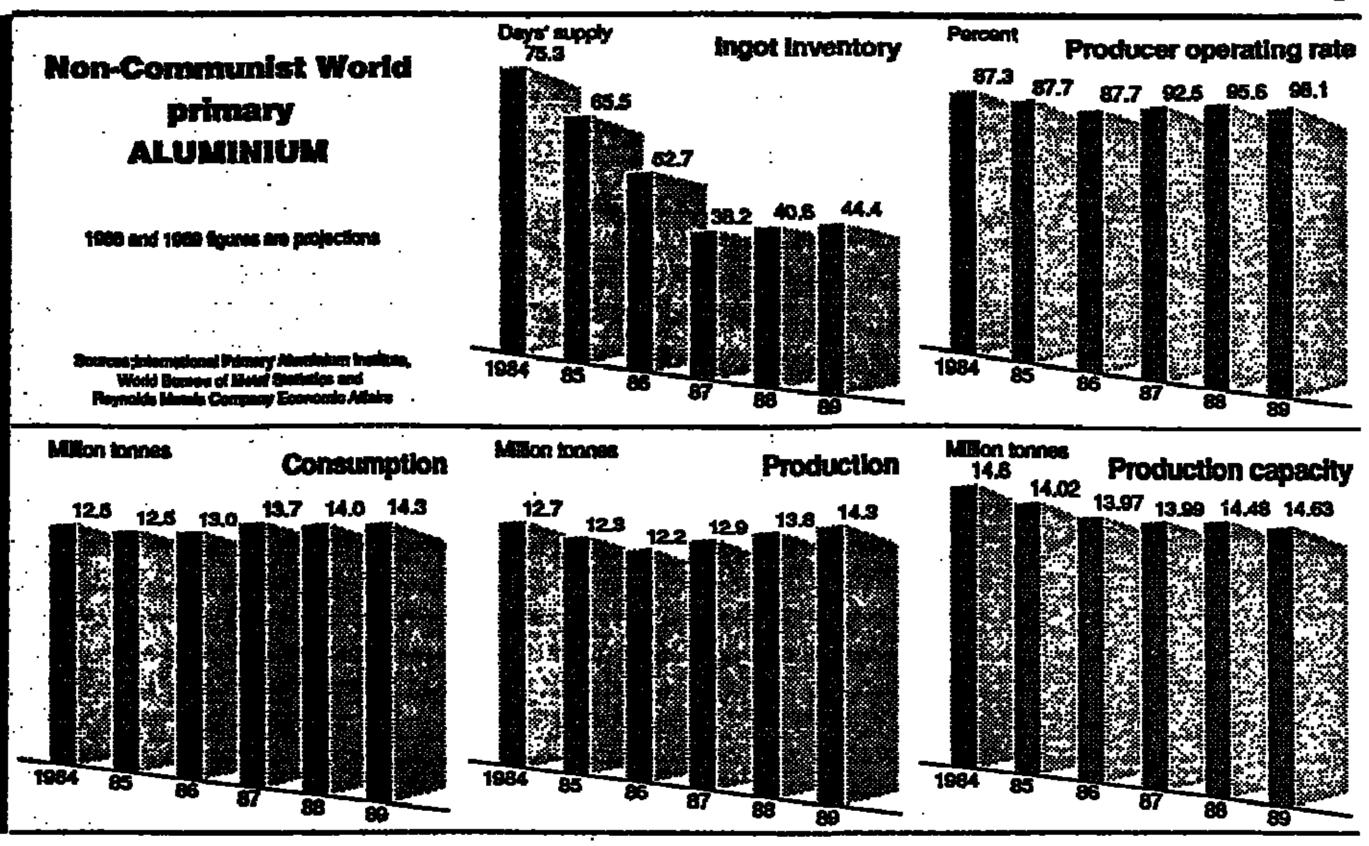
But even those who are b[...]ish about property point [...] Hong Kong's dependence [...] events outside its control. [...] Peking's economic reforms r[...] into the sand or protectionis[...] re-emerges in Congress, Ho[...] Kong will feel the brun[...] Unlike the banyan tr[...] cocooned in its steel shell [...] property prices may have [...] bend to the winds of econom[...] and political change.

Alison Maitland

SECTION IV
FINANCIAL TIMES SURVEY



The world is short of aluminium. Output and demand are at record levels. Stocks are low and prices high. Producers are taking advantage of the breathing space to develop new products with more value added and higher profit margins. Kenneth Gooding reports



Aluminium

Selling off the furniture

THE WORLD is so short of aluminium that Alcan, the world's biggest producer has been selling off its furniture, or that's what Mr Ian Rugeroni would like us to think. He called in a dealer recently to take away five coffee tables from Alcan's Toronto office because they were made from aluminium ingots. Mr Rugeroni made sure a photographer was on hand to capture the event.

As president of metal marketing for Alcan Aluminium it has been his job to convey the seriousness of the shortage to the group's production people so that they could react positively.

He has used considerable showmanship to do so. During a visit to a smelter he discovered a 10,000 lb sheet ingot used to calibrate scales and promptly had it sold. When he told Metal Bulletin magazine that aluminium must be moved more quickly to customers and that "if the metal is shipped from the plant cold, someone's in trouble", some employees at the smelters took him seriously.

"The point I have been trying to make that we should look at all our stock. If a coil has dust on it, that is stock we don't need. However much added-value we put into that coil in the past, at today's prices we can almost certainly make more from the metal if it is reprocessed," Mr Rugeroni says.

There have been other manifestations of the aluminium shortage in recent weeks. At one end of the scale thieves have stolen aluminium guard rails from roads and bridges in some US states because scrap prices are so high.

More importantly, China has stopped all exports of aluminium because its domestic industry is so short. Local newspapers report that 90 per cent of that country's aluminium fabricating capacity is shut down in October because it lacks raw material or cannot afford it.

Indonesia is involved in a heated dispute with Japan about their joint venture aluminium operation in North Sumatra after the Indonesian partners unilaterally stopped shipments to Japan in August. The Indonesians want an increased share of production so as to meet growing demand from Indonesian aluminium fabricating industries.

The London Metal Exchange, the market of last resort for buyers in desperate need, has reflected the world shortage. Its prices which have doubled since early last year.

The LME price for aluminium for immediate delivery rose to a peak of more than $1.60 a lb in June compared with under 60 cents in the recession. To be fair, this was an artificial peak because the market was being manipulated. Some companies had to pay more than £100 a tonne to borrow metal (buy cash and sell forward) for one day and rumour has it fortunes were made and lost at that time.

The LME board called a meeting to wrap some knuckles and urge traders not to withhold metal in order to make short-term gains at the possible expense of the market's long-term health. But the board had to acknowledge that the episode would not have been possible unless there had been a fundamental shortage of aluminium.

This shortage has its origins in the deep recession which overtook all the base metals in the early 1980s. Aluminium was particularly badly hit because the oil crises which slowed world economic growth also moved energy prices up to a higher level in one, big step.

Energy accounts for about 20 per cent of aluminium's production cost and this one blow wiped out a great deal of smelting capacity in the industrialised countries.

Virtually all Japanese capacity was shut down and the US wrote off 20 per cent of its primary aluminium production capacity in 1986 alone.

Once Japan had gone, the US was exposed as the country with the industry's swing capacity – those smelters which, because of their high costs, should be the first to close or reduce output in response to depressed market conditions.

The pressure on the US can be judged from the fact that between 1980 and 1986 primary aluminium output fell from a record 4.645m tonnes to an 18-year low of 3.037m tonnes. The US remains the world's major aluminium producer but its share of the non-communist world market shrank from 36 per cent to 25 per cent in that period.

The speed at which market conditions changed took the industry by surprise. The worldwide aluminium business this year has exceeded the most optimistic expectations. Demand has continued to rise, driven by the thriving economies of the US, western Europe and the Asia-Pacific countries.

Nearly all the non-communist world's capacity has been restarted. Some of the so-called Lazarus plants that the US industry had written off have been temporarily put back to work.

By the middle of this year the International Primary Aluminium Institute (IPAI) was reporting that the Western world's smelters were working at 100.7 per cent of nominal capacity or at a record 1.13m tonnes a month. The previous peak was 1.06m tonnes a month in 1980 and 1988 which represented 94 per cent and 90 per cent of capacity respectively.

Reynolds Metals, second-largest of the US producers, reckons that the non-communist world primary aluminium output will increase from 12.9m tonnes in 1987 to 13.8m this year leaving it lagging behind consumption which is estimated to increase from 13.7m tonnes to 14m tonnes.

This lag in supply has left stocks of primary aluminium near their historic lows. Compared with the peak 3.27m tonnes in 1980-82, by the end of July this year producer stocks of primary metal were down to 3.025m tonnes, the lowest since July, 1974.

The tightness of supply has sent prices sky high and the industry is reaping record profits.

Profits are being used to speed up a process of change which was already clearly evident – the industry is chasing lower costs; is introducing more products with higher value-added while searching for new uses for aluminium.

The industry is made up mainly of integrated companies which have operations ranging from mining bauxite, aluminium's raw material, to fabricating high-technology products from aluminium alloys.

The search for new uses and markets for aluminium has been preoccupying the major producers for two or three years. Not since the 1940s and 1950s, when the industry had to find commercial uses for capacity installed during the second world war, has there been so much effort.

At present there is no dominant market for aluminium. It has a wide spread of uses because it is a metal with many properties, each of which has its attractions.

Of the major users, transport and construction each account for about 23 per cent of total demand, while packaging takes 20 per cent.

The companies believe that there is major future growth to come from further penetration of the automotive industry, particularly if the car companies can be persuaded to switch to vehicles with aluminium frames.

Ironically, today's high price might well be holding back the industry's progress in new directions. But there is unlikely to be a let-up of price pressure until well into 1989. "Every time we look at the question of tight supplies, the horizon moves back a little", says Mr Gilles Proulx, Alcan's chief economist.

Between 1980 and 1988 the average annual growth in primary aluminium consumption in the non-communist world was 1.6 per cent. However, it jumped to 6 per cent last year and will be at 2 per cent in 1988, constrained by high prices. Mr Proulx is looking for another 2 per cent to 4 per cent increase in 1989.

On the other hand, he says, there is not much scope for capacity expansion, even in 1990. Capacity might increase by 1.5 per cent a year and rise to 2.5 per cent in 1991 when two small smelters come on stream instead of one. "Even with a modest pace of demand growth, the tight supply situation will continue for two years", Mr Proulx suggests.

However, to some extent this ignores the increased importance of scrap metal in the system. Shearson Lehman Hutton's London Metals Research Unit pointed out recently that in the 10 years to 1986, while consumption of primary aluminium rose by an annual average of 1.6 per cent, consumption of scrap rose by 5.2 per cent.

Scrap is widely used for can-sheet and castings and makes them much more competitive than they would otherwise be. Some observers believe that scrap will provide the industry's swing capacity in the future because much more of it will be attracted into the system when demand and prices are high.

The short term prospects are for prices to remain high by the standard set during most of the 1980s. There might even be another sharp rise to record levels early next year in advance of labour contract negotiations at Alcoa (Aluminium Company of America) and

Continued page 3

INSIDE. World capacity: set to rise, 2; LME: dollar contract, 2; Western Europe: Producers look to 1992, 3; Profiles: Alcan, Reynolds, Alcoa 4; New products: the aluminium car 6; recycling 6

ALUMINIUM 2

Production: after slimming in the early 1980s . . .

Capacity set to rise

THE WORLD aluminium industry, having slimmed itself down in response to slack demand and soaring energy costs in the early 1980s, is now in the process of fattening itself up again to meet the consumption surge that began two years ago. The weight, however, is not being put back on where it was removed.

Price levels seen this year have been sufficient to provide handsome profit margins even for most high cost producers. But only a supreme optimist would expect that pattern to continue. In the longer term it is clear that high prices will lead to expanded capacity, followed by the inevitable erosion of profit margins.

So it is on the areas that can offer low costs that most investment interest in aluminium smelting capacity is now being concentrated.

As aluminium smelting is an energy-intensive activity, low-cost in the industry is pretty well synonymous with cheap power. And that rules out much of the industrialised world.

Two of the developing world's most interesting interesting areas for investment in aluminium smelting are Latin America and the Middle East; the former based on cheap hydro-electric power and the latter largely on oil gas – a by-product of oil drilling which would otherwise have to be flared off, and so represents a virtually cost-free power source.

At present Brazil is Latin America's biggest producer with total capacity of 874,000 tonnes a year. Drought problems held back actual production last year, however, to about 825,000 tonnes, according to Shearson Lehman Hutton, the London metals broker.

Expansions planned at existing smelters would raise primary smelting capacity to 973,000 tonnes next year, and there are various new projects under consideration which would lift the total to about 1.3m tonnes a year by the mid-1990s.

By then, however, Brazil may have surrendered its lead in South American production, if Venezuela's very ambitious expansion plans come to fruition.

Venezuela's existing Alcasa and Venalum operations are scheduled to have an aggregate production capacity of 671,000 tonnes next year, up from 450,000 in 1987 – but that is not even the half of it. Faced with declining oil revenues, Venezuela is planning to step into the major league of primary aluminium producers with capacity increasing to 7m tonnes a year by the turn of the century.

"It is difficult, if not impossible, to think of a country which is better suited to producing aluminium than Venezuela," said Shearson Lehman in this year's edition of its annual aluminium review. "None of the major areas where primary capacity has expanded significantly over the last decade – Australia, Brazil, Canada – can offer indigenous ample supplies of both bauxite and hydro power concentrated within such a compact geographical area. This, coupled with plentiful inexpensive labour and excellent infrastructure, places Venezuela in a singularly advantageous position."

These advantages – which add up to an average production cost, based on the first half of 1986, of 32 US cents a lb, the lowest of any significant producing area – have not been lost on overseas investors. Many developed world aluminium producers are involved either in existing facilities or in projects for new smelting operations.

Next year should see work start on two joint-venture plants – for Alisa and Alusur – with a combined planned capacity of 210,000 tonnes a year by 1997, at Puerto Ordaz, on the Orinoco river about 120 miles from the coast. In the more distant future is a possible 360,000 tonnes a year operation at Caicara-Cabruta, about 300 miles further up the river.

A fly in Venezuela's ointment, however, is the rather jaundiced view foreign bankers tend to take of the country. And that will not have been helped by a scandal about alleged corruption which has been dogging the aluminium industry. Already Mr Enrique Castells has been replaced as chief executive of Venalum, the country's biggest producer, and Mr Celestino Martinez has resigned as chief executive of Alcasa. If more senior executives were to leave the credibility of the expansion plan, which is already viewed with some scepticism, could be threatened.

In the Middle East, where operating costs are probably not much above Venezuela's, the second phase of aluminium development is nearing completion. Egypt's hydro-powered Nag Hammadi plant has reached its planned 175,000 tonnes a year capacity and by early 1990 expansions should have lifted annual capacity in Bahrain to 225,000 tonnes (from about 175,000 tonnes at present) and in Dubai to 160,000 tonnes.

Other Arab states also have plans, at various stages of development, to capitalise on plentiful supplies of tail gas.

Probably closest to fruition is Saudi Arabia's plan for a 170,000 tonnes a year smelter in Jubail industrial city. This would benefit from the country's substantial reserves of bauxite and caustic soda (used in the smelting process) as well as the availability of cheap power.

Another promising prospect is the 240,000 tonnes a year Umalco project in Umm al Qiwain, one of the smaller members of the United Arab Emirates.

The emirate has no oil of its own so the negotiation of supply agreements with other Arab states is crucial.

Power supply is certainly not a problem in Qatar, which probably has the world's largest natural gas reserves. It is being mentioned as a possible location for an 180,000 tonnes a year smelter planned by the Gulf Organisation for Industrial Consulting.

Iraq is yet another Arab aluminium prospect, but plans are at a very early stage and analysts are not yet including its production potential even in tentative long-term forecasts.

It is highly unlikely, of course, that all the Arab projects will materialise. But a substantial increase in capacity seems certain and aluminium analysts are expecting the region's capacity to treble to about 1.5m tonnes a year in the not too distant future.

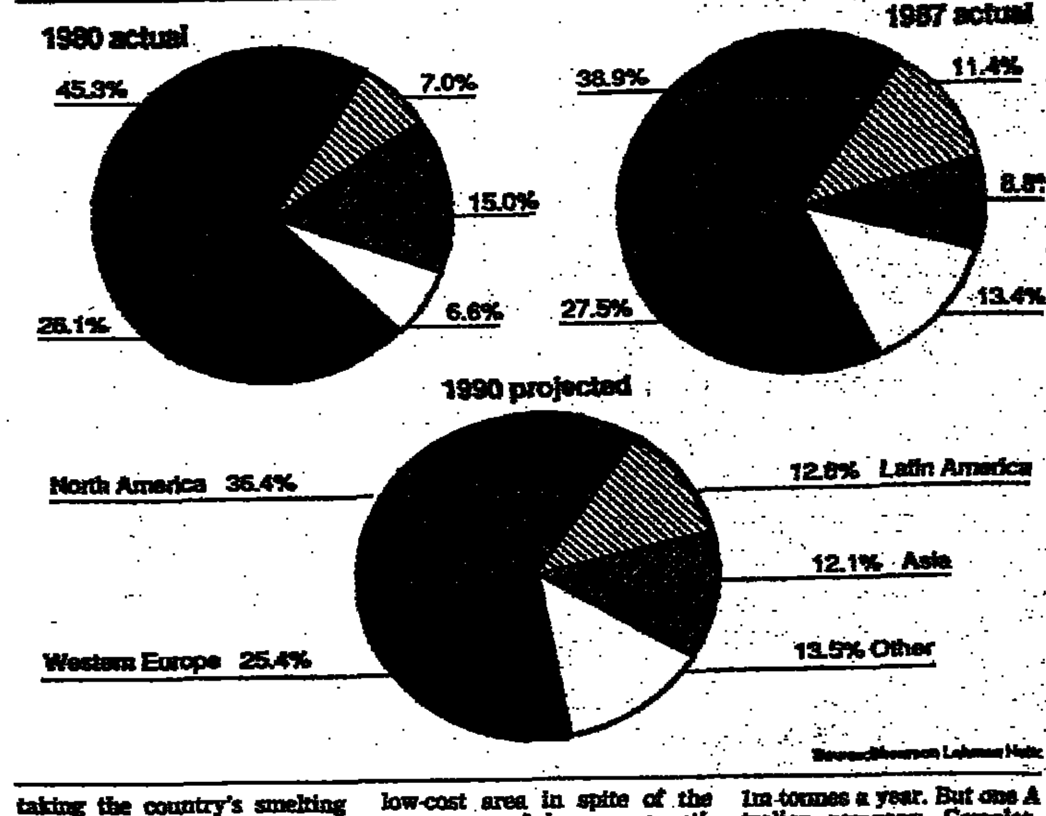
Other developing world prospects include China's rather nebulous plans and the Indian National Aluminium Company's 218,000 tonnes tonnes a year complex in the eastern state of Orissa. This is scheduled for completion next year, taking the country's smelting capacity to about 500,000 tonnes a year.

In the US, high aluminium prices have resulted in higher capacity utilisation, re-opening of mothballed smelters and reprieves for plants scheduled for closure, rather than the commissioning of new capacity. But in Canada, still rated a low-cost area in spite of the appearance of sharper competition from the developing world, some genuine expansion is still taking place.

Australia, which used to be regarded as a low-cost producer before the newcomers lowered the world average, has more or less completed its capacity expansion to just over 1m tonnes a year. But one Australian company, Comalco, is reported to be looking into feasibility of a 500,000 tonnes a year joint venture in the Soviet Union. This would capitalise on the vast Soviet hydro-power supply with the bauxite coming from the Weipa deposit in Queensland.

Richard Mooney

Primary smelter location and production capacity



LONDON METAL EXCHANGE

Dollar contract on its metal

THE LONDON Metal Exchange's contract for standard, or 99.5 per cent pure, aluminium stops trading on December 21 a little more than 10 years after its birth. Its passing will be mourned by some, but the LME has become increasingly confident over the past year that its younger brother will be a brilliant successor.

Aluminium trading at the exchange is in the process of switching from standard grade metal to the contract for high grade or 99.7 per cent pure aluminium. This contract – the first at the LME to be denominated in US dollars – was launched in June last year in the expectation that business would gravitate towards it.

However, the new contract proved as difficult to get going as the standard contract had been in 1978. So the LME decided to kill off the standard contract, which had become successful in the early 1980s once trading and physical liquidity built up.

Aluminium is now coming to be seen as a rival to the LME's traditional flagship contract for Grade A copper. And Mr Christopher Green, the LME chairman, believes that developments this year go a long way to answering critics of the exchange's aluminium trading.

For a start, the enforced switch to the high grade, 99.7 per cent, contract brings the exchange into line with the international aluminium industry, which has been producing only 99.7 per cent pure metal for years.

Standard aluminium is now manufactured only in the Soviet Union and Eastern bloc countries, in effect restricting the amount of metal available for delivery to LME warehouses.

"The 99.5 per cent contract is inefficient and vulnerable. It has been the key to the ability of some people to exploit the market," says Mr Green.

This summer saw the latest of several aluminium squeezes on the LME. Prices climbed to record levels through May and June after stocks fell to the lowest levels for eight years at the beginning of April, when LME warehouses contained a total of only 41,175 tonnes of both high and standard metal. This compares with 84,050 tonnes at the beginning of the year and 162,625 tonnes earlier this month.

Aluminium has not been alone this year in suffering from low stocks and strong demand.

Backwardations, or premiums for cash metal over the three-month prices, have been running at very high levels. At one stage earlier this year the premium for cash aluminium reached about one-third of the three-month price.

Big backwardations coupled with overall price volatility make it difficult for producers and users to hedge their risks, which is the prime purpose of the market. The LME board was forced to take emergency action in February when the price of nickel for immediate delivery rose to unprecedented levels without any sellers appearing.

By June the board had added aluminium and copper to the metals it was watching closely. Following suggestions that both metals had been deliberately withheld from the market, the members were called together and urged to take a more responsible attitude to making metal available to the market.

In the event the board did not have to take any action on aluminium, although the market had certainly been exploited, if not manipulated.

"It was a very tight physical market," says Mr Green. "There was a lot of producer hedging which had to be borrowed back, bought back, or delivered against – and producers were not geared to deliver against the market.

"In addition, producers were continuing to sell sheet, rod and other semi-fabricated products at prices below three-month LME values. They could have produced less and thrown ingot onto the market."

But he admits the price equations have been very complex. For example, if a Western producer was delivering high grade aluminium against the standard grade contract, the premium originally paid for high grade metal over standard was lost. And when the producer needed the metal he was having to pay the premium again.

The switch to the high grade contract will end some of these problems. And the contract was launched with a built-in plus – deliveries can be made at an LME warehouse in Singapore.

The Singapore warehouse, set up to serve clients in the Far East, was the first LME warehouse outside Europe. But the exchange is spreading its wings further. Mr Green told the LME annual dinner earlier this month that agreement has been reached for several LME warehouses in Japan, which are expected to become good delivery points for high grade aluminium in July next year.

He pointed out that Japanese fabricators were already important users of the LME. This development would encourage greater confidence among them in the exchange's aluminium contract, as it should do to other users.

The LME believes that this summer's squeeze was the catalyst that led to the Japanese agreeing to warehouses there. The exchange is also hoping to set up some warehouses in the US soon.

The summer prices of aluminium – when cash high grade metal went over $4,000 a tonne – faded away as stocks in LME warehouses began to recover. On October 12 cash high grade was $2,557 a tonne, a premium of exactly $58 over the three-month.

It is also worth noting the shift in the balance of aluminium in LME warehouses. At the start of October last year, there were 62,400 tonnes of standard metal and 28,675 tonnes of high grade. In the second week of this month there were 56,550 tonnes standard, and 106,225 tonnes high grade.

The daily turnover, which through most of the year was languishing at between 15 and 25 tonnes for high grade against 300,000 tonnes for standard, was 105,100 tonnes for high grade against 192,000 tonnes on October 12. High grade is expected to overtake standard at the end of the month.

Mr Green says the transition is going smoothly, and believes that once the standard contract has gone, more aluminium business will come the LME's way.

"People will be more reluctant to deliver high grade metal if the market is being squeezed," he says, "and the Far East warehouses mean that the ability of the trade to respond at short notice is considerably enhanced."

Richard Mooney

STOCKHOLDERS

Distribution network grows

THE CHANGING nature of aluminium production over the past 20 years has underlined the importance of the aluminium stockholding industry as a player in the UK market.

The figures reflect the sector's rapid expansion. In 1962 the Aluminium Stockholders Association's members shipped 32,000 tonnes of aluminium and related alloys to their customers. Last year, 116,888 tonnes were shipped.

The main reason behind this has been the considerable increase in the size of ingots emerging from the production lines. Very few end users can take a whole ingot, which relatively recently weighed a tonne and can now be as heavy as 12 tonnes. Only large companies – such as the big can manufacturers and aerospace companies – now buy direct from the mill.

British Alcan Aluminium, the only UK producer of the metal, supplies ingots of five to six tonnes. "One of those would make a hell of a lot of sheet," says Mr Lewis Garfield of stockholders Garfield Lewis, "enough to stretch from London to Land's End (the most southerly tip of the UK)."

The fact that there is now only one domestic manufacturer means that nearly half the UK's aluminium is brought in from abroad. The growth of imports and the relative demise of domestic UK manufacturing has in itself led to an expansion of the distribution network. Of the 500,000 tonnes of aluminium consumed in the UK in a year, about 200,000 tonnes goes through distributors, with ASA members handling about 80 per cent.

In addition, the emergence of South American producers, particularly in Venezuela, is likely to lead to further growth in the distribution industry in the next 20 years, according to Mr Garfield. "In terms of distribution the South Americans are not sophisticated."

The development of the aluminium stockholding industry has been slow and steady in line with changes in the production industry and consumption patterns.

Several producers have tried and failed to set up distribution services. "The entrepreneurial flair required for distribution is quite different from that needed in the smelting industry," says Mr Garfield.

Nevertheless, half the UK stockholding industry is owned by the major aluminium producers, according to Mr Roger Littlewood, chairman of the ASA. "The two have obvious common interests and co-operate to a great extent in promoting the industry."

Many of the stockholders are aligned to specific industries. The biggest end user until recently was the lorry building industry – aluminium is

Very few end-users can now take a whole ingot

widely used in the manufacture of lorry bodies. But that sector has been overtaken by the construction industry, which uses the metal not only for cladding and roofing, but also for internal partitioning and ducting, among other things. It is also now being used in heavy section for structural purposes.

Aluminium is also supplied in large quantities to the Ministry of Defence, window manufacturers and the general engineering sector.

"Our customers range from someone making an airbus to a baker buying a small sheet of aluminium to repair one of his trays," says Mr Garfield.

The stockholder's *modus operandi* gives him the flexibility which the mills, geared to the most efficient production methods, can no longer supply.

"He buys stocks from the mill and supplies manufacturers in batches according to their requirement, either as one off orders or in irregular call-offs, large or small," says Mr Littlewood. "In many instances he will even hold dedicated stocks for a customer. And increasingly, he provides a range of further specialist services on which industry has come to rely."

The stockholders are increasingly becoming involved in processing – shearing, sawing, cutting, profiling, bending, forming and welding the metal to a particular specification, according to Mr Littlewood.

"He may stock a wide range of standard and/or very special extrusions; sheet or plate in common or exotic alloys; and he may supply them with a variety of sophisticated paint finishes to rigorous quality control requirements."

In addition, Mr Littlewood points out that many manufacturers want their aluminium "just in time". If a buyer went to a producer, he might be given a delivery time measured in months. The stockholder should be able to supply aluminium off the shelf.

If he cannot, the ASA network, which includes 40 members, comes into its own. "If one supplier is unable to provide the required material then the countrywide network of ASA members can be alerted to the need." Mr Littlewood believes his members rarely fail to come up with the right goods.

Mr Garfield is optimistic that the distribution industry will continue to expand over the next 20 years as UK aluminium use grows.

"Per capita consumption (of aluminium) seems to vary in proportion to the standard of living in a country," he says. "Per capita the UK consumes less than half the amount in West Germany. As the UK economy grows, so will consumption. Taking a 20-year view, I believe our consumption will double."

However, he sounds a note of caution to the stockholding industry as a whole. "Distribution of base metals is not a high margin industry, and it is space intensive. Rents and property values have risen to astronomical heights in the past five years. It is hard to find somewhere to have a business like ours within 50 miles of London."

The price of aluminium has also risen sharply, putting strains on some stockholders' liquidity. As the volume of consumption rises and stockholders begin to run out of space, they are going to need big injections of capital to keep up, he warns.

He believes the medium sized companies will suffer most, leaving the industry with *half* a dozen or so big distributors and a lot of small specialised companies.

David Blackwell

European producers are enthusiastic about the EC's move to a single market

Industry counts the benefits of 1992

THE ALUMINIUM industry is intensely enthusiastic about prospects after 1992 when tariff barriers within the European Community are due to be removed.

"We hope that, after negotiations between the EC and the EFTA countries, we shall have available to us a unique market of 320m people, far more than that of the US," says Mr Theodor Tschopp, chairman of the European Aluminium Association.

"The industry will be able to benefit from cost savings through economies of scale. It will justify and encourage increased research and development expenditures, leading the European aluminium industry to another strong, innovative thrust," he suggests.

Privately, other executives suggest that after 1992 it is likely that joint ventures involving several companies will spring up as the industry tries its hand at new downstream aluminium products.

The European aluminium industry to a great extent has already reorganised so there will be no last-minute scramble to prepare for 1992.

Probably the most important event in Europe last year was outside the Community and involved the merger of two of Norway's main producers: the state-owned ASV and the aluminium division of the energy and fertiliser group, Norsk Hydro, itself 51 per cent owned by the government. That brought together into the new Hydro Aluminium company some 620,000 of primary aluminium capacity as well as a wide network of fabrication and extrusion units throughout Europe.

Pooling of the four smelters with Norsk's vast energy resources and the wide network of fabrication units should lower costs and provide a strong downstream product base for the new company. Its three rolling mills in Norway and Denmark, coupled with five extrusion plants acquired from Alcoa will the the core of this product base.

Among the other European-owned groups, VAW of West Germany is following the international trend of moving increasingly downstream into semi-fabricated products by introducing a 2 metre wide foil mill at Grevenbloich and a new cold mill to produce wider coils for foilstock at nearby Aluminium Norf.

Meanwhile, Alusuisse of Switzerland is to reduce its annual primary capacity to about 250,000 to 300,000 tonnes and instead buy in some 30 per cent to 40 per cent of its metal requirements. This involves the closure of the Chippis smelter in Switzerland while production at the Rheinfelden smelter in West Germany is being cut to about 40,000 tonnes a year.

However, downstream Alusuisse is spending £32m to raise capacity at its UK subsidiary, Star Aluminium, from 25,000 to 40,000 tonnes a year of foil and litho strip. Most of the metal for Star comes from the group's Isal smelter in Iceland.

In France, Pechiney, another state-owned company, has drawn up a restructuring plan. Last year it rationalised its French raw material operations. The 360,000 tonnes a year La Barrasse alumina refinery was closed and activities concentrated at its Gardanne plant, with a 620,000 tonnes capacity. Bauxite mining at Peygros was also ended.

Currently Pechiney is considering whether to set up a new 200,000 tonnes a year smelter in France at a cost of FFr5bn to add to its current 850,000 tonnes of primary aluminium capacity (of which 327,000 tonnes is in France).

There is also the possibility that more primary capacity will be added in Iceland, perhaps 90,000 to 120,000 tonnes a year, either in a new facility or as an extension of the Isal smelter. The metal would be shared by Alusuisse, Austria Metall, Granges of Sweden and Aluminet, a subsidiary of Hoogovens of Holland.

If the project goes ahead, production would start in 1995.

Mr Tschopp of the European association points out that: "With few exceptions, for instance Norway and Iceland, potential sites for new smelters in Europe have become very scarce". This is of more than passing concern to the European Commission because aluminium is produced or fabricated in nearly all the EC countries and the value of production is estimated at about 35bn ECU a year.

The European aluminium industry employs well over 100,000 people and provides jobs in many other associated sectors. The association suggests the livelihoods of more than 300,000 people in Europe depend on aluminium.

Furthermore, many of the plants are located in areas which are economically less-developed so the industry often makes a contribution to improving or developing regional economic structures.

With these factors in mind, the industry does not expect there will be any immediate substantial cut in primary aluminium smelting capacity in Europe in spite of the region's high costs. "The European Commission is interested in keeping an aluminium industry intact", said one company official privately.

The industry has been discussing its future against a background of exceptionally buoyant current conditions. In 1987 consumption of primary metal in western Europe reached a record 4.1m tonnes, some 600,000 tonnes more than output in the region.

Demand was satisfied partly by running down stocks and from imports which totalled 430,000 tonnes. The association expects demand this year will be more than 1.5 per cent ahead of 1987 and imports will have to rise again because stocks are down to only 40 days and cannot be cut further.

Meanwhile, evidence of the global nature of the aluminium industry is clear to see in the way the North American producers have restructured their European operations.

Reynolds Metals, the second-largest US group, has set up a European headquarters in Lausanne, Switzerland, to co-ordinate its manufacturing, distribution and marketing across Europe. It intends to focus particularly on the packaging sector, supplying products from Italy and Spain. To this end it is expanding foil production operations at its Inasa subsidiary in Spain by about one third to between 75,000 and 80,000 tonnes a year.

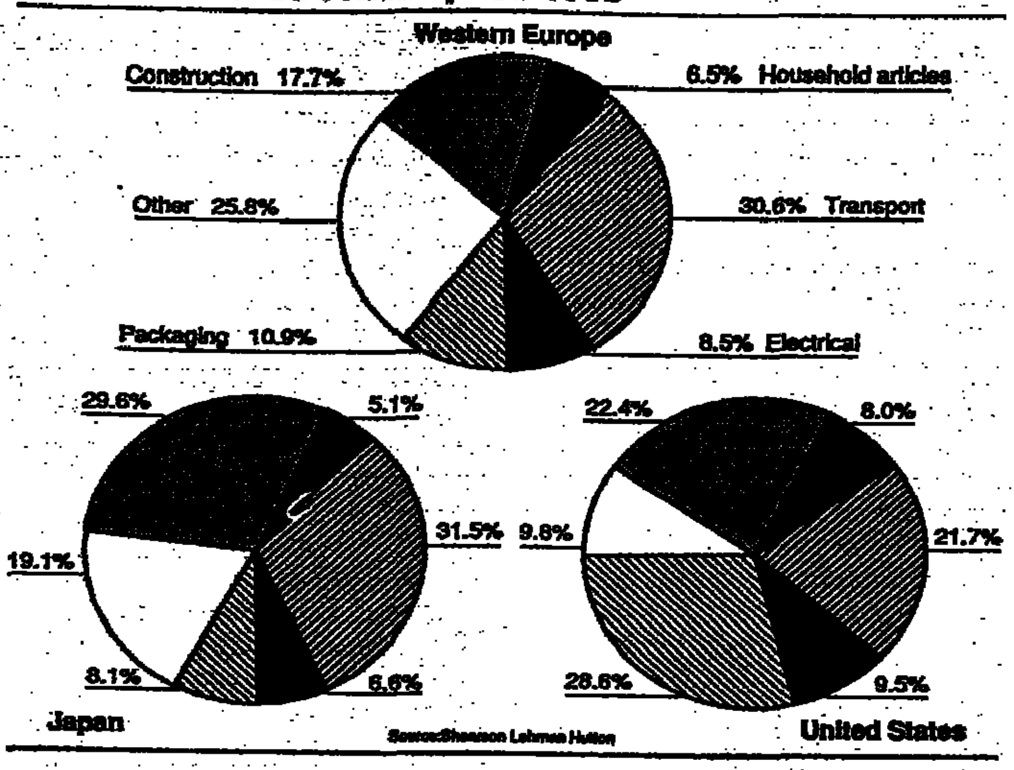
Alcan of Canada has reorganised its European operations so that each unit specialises and gets the benefits of economies of scale – for example, all hot rolling is done at Aluminium Norf in West Germany and Rogerstone in the UK.

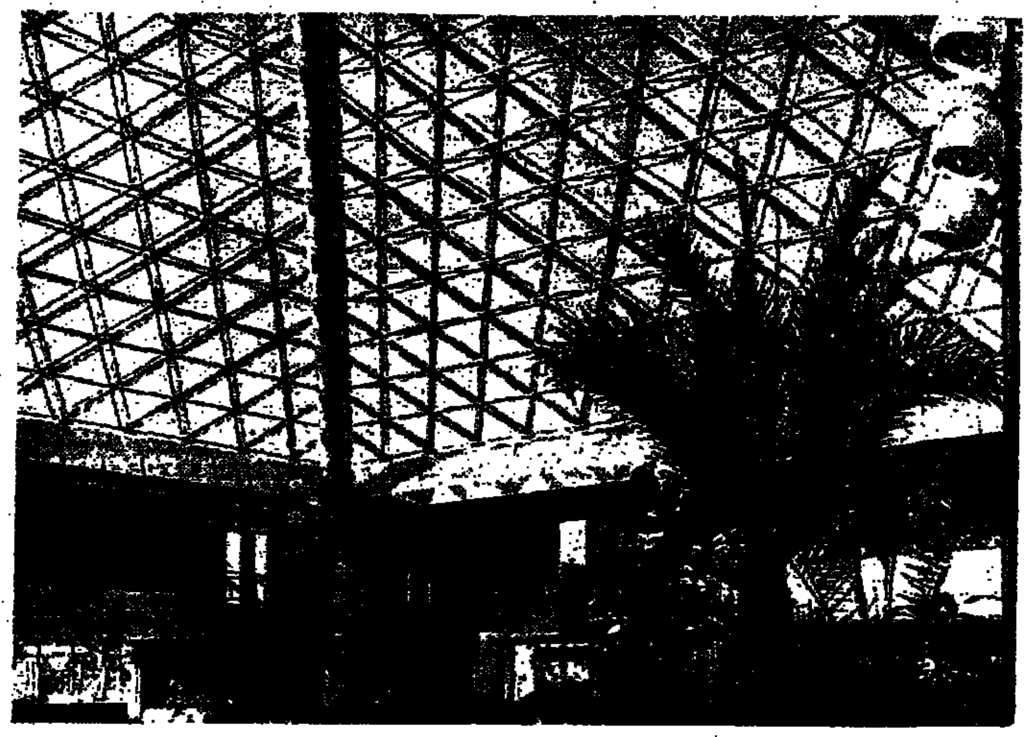
The management system has also been reorganised so that Alcan's Italian and Swiss companies report to its West German company "for management support and guidance" while France gets similar help from the UK. The president of Alcan Germany is responsible for the overall development of rolled products in Europe "to match the realities of the market".

Mr David Morton, Alcan's president, suggests: "This is relevant for 1992 and the opportunities the market presents. But 1992 won't have an enormous impact on us as a company because we are already working as an integrated business. But 1992 should give the European economy a second wind from which we can benefit enormously".

Ken Gooding

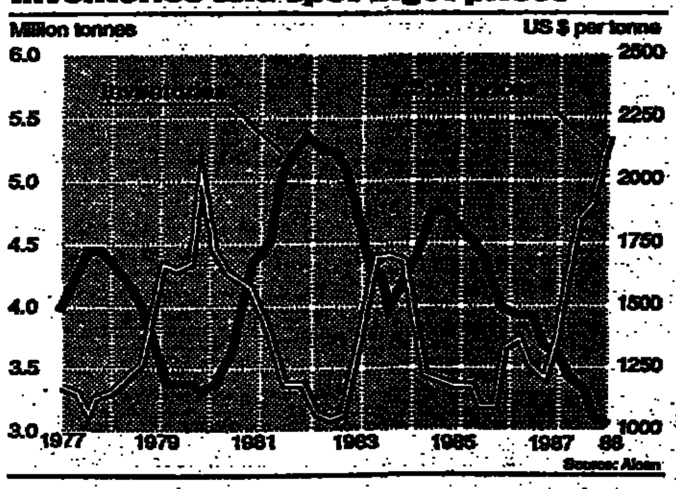
Aluminium semis consumption 1986





Aluminium goes through the roof: an aluminium "triodetic" structure supports the translucent roof of the public swimming pool at Romford, Essex

Inventories and spot ingot prices



Selling off

Continued from page 1

Reynolds which begin in May.

Three years ago, when the current contracts were being negotiated, prices were pushed up as consumers stocked up in case there was a strike. When negotiations ended amicably, demand – and prices – collapsed until stocks had been whittled away.

In the long term, the move of primary aluminium production capacity away from those areas with high energy costs to the low-cost countries such as Canada, Venezuela, the Gulf, Australia, France and Brazil will certainly continue.

For example, over the next five years more than one third of planned primary aluminium expansion in the non-communist world is to be in Venezuela.

Recent scandals and the removal of senior executives from the Venezuelan industry throw some doubt on the forecasts. But some observers suggest that the world might have too much capacity and there is the possibility of over-production in the mid-1990s.

Others, such as Mr Bill Bourke, chairman of Reynolds, say that demand might well continue to outpace supply, particularly as the developing countries begin to expand their economies. He asks: "What is the rest of the world going to do when Brazil starts using up all its own aluminium?"

Kenneth Gooding talks to the leaders of the world's largest aluminium companies

Alcan rationalisation has paid off

MR DAVID Morton, president of Alcan, the Canadian group which is the world's largest aluminium producer, says he was decidedly discomforted when one of his major competitors gave the impression that it had lost faith in the metal and wished it was not involved in the industry.

That impression (given by Aluminium Company of America) "had all kinds of implications for our customer base," Mr Morton recalls. "We at Alcan went to great lengths to say this was not a moribund industry but one which would produce many future innovations".

Alcan perhaps has more to lose than any other company if demand for aluminium stops growing. Last year it produced 1.587m tonnes of primary metal or 13 per cent of the non-communist world total. It shipped 2.2m tonnes of aluminium products, about 18 per cent of the total.

Mr Morton points out that, even when the industry was at the depths of the recent cruel recession, Alcan showed its faith in the metal. For example, in 1982 it merged two big loss-makers in the UK into one, British Alcan Aluminium. "We made a profitable business from the wreckage of those two companies".

Alcan also bought the aluminium assets of Atlantic Richfield Company in the US in 1985 "with subsequent rationalisation that has paid of handsomely."

Now that the industry's fortunes have turned and Alcan is heading for record profits, the group is investing heavily in aluminium, not diversifying away from it.

"We are spending more than US$120m on research and development this year (compared with $95m in 1987) and accelerating the search for new uses for aluminium," says Mr Morton. "Remember aluminium is a relatively new material with many future applications which haven't even been thought of yet. We have many new ideas, many new processes and some new products being looked at within the existing businesses."

Capital expenditure will climb to more than US$770m against $425m last year and more than double the $342 in 1986. The is not profligate spending, Mr Morton insists. "We have not changed our strategy, we have just altered the timing of some projects".

For example, construction of the Laterriere smelter in the Saguenay region of Quebec has been telescoped. The phased introduction has been dramatically speeded up this year – the second phase by nine months and the third phase by 14 months.

When the third phase is completed in October 1990, Alcan will have spent US$488m on the project since it began in May last year.

The total cost will run to $603m to give an annual capacity of 200,000 tonnes of primary aluminium.

Mr Morton points out that this is mainly replacement capacity, taking over from Alcan's two existing outdated and environmentally questionable smelters in Quebec. Laterriere will employ only half the people, produce aluminium at a much lower cost and cut pollution substantially.

About half of Alcan's aluminium smelting capacity is in Canada and the operations are already low cost because they are supplied with power from the group's network of wholly-owned hydro-electric plants.

Some analysts believe Alcan is the world's lowest-cost aluminium producer, averaging about 42 cents a lb.

Alcan it is to add to that power supply by spending US$480m to dam the fast-flowing Nechako River on the west coast of Canada to produce more power for its Kemano hydro electric plant from 1995.

It is also to set up in Quebec the first facility to make Dural, claimed to be more advanced than carbon fibre and much cheaper than titanium.

Dural, 90 per cent aluminium and the rest silicon ceramics, was grabbed by Alcan's office in Cambridge, Massachusetts, set up specifically to attract people and companies to come to the group with ideas about new uses for aluminium.

To some extent the burst of new projects is simply a matter of Alcan catching up on the bad times during which it restrained capital expenditure and cut the dividend payments. Net profits plunged from a US$253m in 1984 to a $180m net loss the following year.

Alcan spent US$416m to rationalise during the bad years of which $60m was accounted for by early retirement payments.

Employment was cut from 70,000 to 63,000 and $200m knocked off annual running costs in 1985-86. Last year those costs were cut by another $50m and, because this is a rolling programme, the 1988 target is a further $60m.

Alcan has also simplified its management structure. Mr Morton says this helped the group move faster to take advantage of improved market conditions. "To be entrepreneurial in large organisations means you must have the ability to make decisions quickly. We have that ability," he insists.

Five years ago Alcan had regional offices, functional offices, coordinating offices. Today twelve managers report directly to Mr Morton from all the principal operating centres around the world. "We don't need guards on the guards today," he says. "People were once too interested in protecting their turf.

The current high prices for aluminium have obscured the benefits of the slimming process but they will be clearly seen during the next downturn, Mr Morton suggests.

Last year the group's net earnings bounced back to a profit of US$397m. Internal estimates suggested that profit would rise to $550m this year but Alcan reported net earnings of $423m for the first half alone.

The company will generate between US$1.2bn and $1.4bn in cash. It has reduced its debt, gearing should be down to 25 per cent by the year end from 37 per cent at the end of 1986 (86) and it has been buying back its own shares, having gained shareholder permission to buy 10m of them.

Mr Morton says Alcan wants to move its return on equity from 8 per cent in the past to 13 to 14 per cent, averaged over the aluminium industry's economic cycle.

In spite of the emphasis on downstream, higher-margin products, Alcan will not give up its position as the last major supplier of aluminium ingot.

"This is a profitable product. We aim to continue to supply the aluminium extruders and to encourage the development of that sector."

Mr Morton says Alcan will take an "exploratory, pathfinding, bridge-building approach to new markets and almost inevitably they will be linked with aluminium technology."

Alcan will be selective about the businesses it goes into – "we are interested in those where we can bring something to the party. We must know something about the business if we are to do a better job than the previous management."

And, possibly with a glance in the direction of Kaiser of the US, should the new owners split that group up, Mr Morton adds: "We are ready to grab any chance to rationalise the industry when it comes along."

Ken Gooding

Transformation at Reynolds

REYNOLDS METALS, second-largest of the US aluminium groups, has been transformed in the past few years and Mr Bill Bourke, chairman and chief executive, glows with enthusiasm about the achievements. "Our strategy at Reynolds has been to free ourselves from the cyclicality of the commodity aluminium markets and to structure our business so that we can reap maximum benefits in the prosperous years but still be profitable in times of recession."

The group has achieved that goal through a painful restructuring process, "now largely behind us"; through continuing cost containment and modernisation programmes; and through diversification in its relatively recession-proof consumer product business and diversification into precious metals.

Perhaps the key to understanding the new Reynolds is that Mr Bourke expects to achieve a sustainable 20 per cent return on equity which he points out is a return more common among consumer-product businesses than metals.

Last year, its best in the 1980s, Reynolds earned a 14.9 per cent return on equity.

Mr Bourke recalls that Reynolds started out as a packaging company and then diversified upstream to produce its own raw material, aluminium. Today packaging is by far the most important operation. It contributes 45 per cent of gross revenue and by far the most added value.

Mr Bourke ticks off the details. The average price of aluminium shipped by the group is $1.75 a lb. The price of Reynolds Wrap, the world's best-selling aluminium foil, is $2.5. Reynolds is the only aluminium company to make its own finished cans. They fetch $2.25 a lb.

"We also get a high profit from consumer products – a 40 per cent to 50 per cent margin," Mr Bourke points out.

A major part of the strategy has been to expand this consumer business which Mr Bourke wants to double in size, taking sales from $360m to $1bn. "The tremendous consumer acceptance of the Reynolds brand name (in the US) created by the success of Reynolds Wrap (aluminium foil) is one of our greatest assets. Our consumer marketing and sales organisation is second to none and we have virtually one hundred per cent retail distribution of Reynolds Wrap," he says.

For some years the group has capitalised on this asset by expanding the range of products it makes for the "wraps" and kitchen management section of the supermarket with the addition of products such as plastic wrap and waxed paper.

However, acquisitions were also necessary if the $1bn sales target was to be reached. This year Reynolds bought Presto, which makes plastic bags, and has sales of $200m a year, and Mount Vernon Plastics, with a turnover of $20m from such things as plastic containers and baking trays.

Mr Bourke says Reynolds needs to digest these acquisitions and is not pursuing any more for the time being.

Reynolds also has in its portfolio a product which gives an even better return than its consumer business: gold.

"We're in gold because it's very profitable," says Mr Bourke candidly. The group's gold costs only $130 a troy ounce to produce while the market price this year has been between $400 and $500 and Reynolds has sold forward some output at $530 an ounce. "There are not many things which legally yield that kind of profit," he says with a broad smile.

The gold was discovered on Reynolds' bauxite property and today the Boddington gold mine, in which Reynolds has a 40 per cent stake, is the largest in Australia and one of the largest in the world. In its first year of operation Boddington produced more than 230,000 ounces of gold and a $30m expansion programme, recently completed, should double output.

Reynolds also has 50 per cent of the Mount Gibson mine in Western Australia which last year yielded 71,700 ounces of gold. The group is exploring for additional reserves at both Australian mines as well as for gold and other precious metals, including platinum, in other areas of Australia and the world.

Gold should bring Reynolds a net profit of $1 a share or $58m next year, says Mr Bourke, and $2 a share by the early 1990s.

Like the other North American aluminium companies Reynolds had to slash costs in the early 1980s in order to survive. Rationalisation cost $600m and the workforce was reduced by one third to about 27,000.

But metal production costs were reduced by 25 per cent in five years.

The group shut down bauxite mines in Jamaica and Arkansas and now gets its raw material from joint ventures or on a contract basis.

In 1985, a year when the US primary aluminium industry was working at only 65 per cent of capacity, Reynolds closed three smelters. The three that remain are in the north west, have an annual capacity of 423,000 tonnes and have reasonable costs because of a specially-tailored power supply deal with the Bonneville authority.

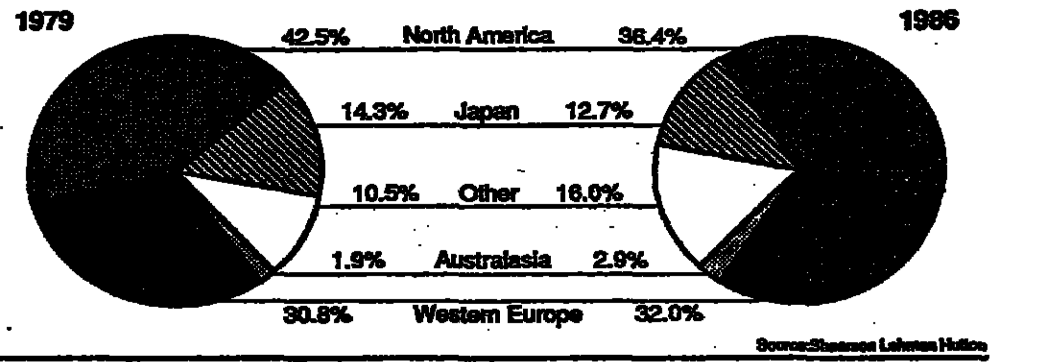
However, two-thirds of Reynolds' aluminium flows from either low-cost Canadian sources – it has a 25 per cent share of the Becancour smelter in that country and owns another 250,000 tonnes a year smelter outright – or recycled cans.

Half of Reynolds aluminium output goes to its own can plant – the group accounts for about 11 per cent of the 79bn unit US can market and aims to specialise in unique packages which bring the higher profits.

Nearly 40 per cent of the metal Reynolds uses is from scrap. It buys in 700m lbs a year as well as about 370m lbs of primary aluminium, about one third of it from US suppliers. On the other hand it will this year sell about 300m lbs of primary metal to long-term customers.

In the early 1980s Reynolds spent more than $1bn on capital improvements and spending this year will rise from $176m in 1987 to $300m for modernisation of the sheet and plate mills, packaging operations and can plants. "We expect to spend at about this rate for the next five years," Mr Bourke says.

Primary aluminium consumption



Research and development expenditure will increase only slightly this year, from $31.9m to $32.2m and the budget looks modest against Alcan's $120m. Mr Bourke is not defensive. He says Reynolds concentrates on developing commercial products and his group has done better than Alcan in introducing new products in the past.

The combination of cost reductions and high aluminium prices has been paying off for Reynolds. Last year it made a net profit of $219.5m on sales of $4.3bn. Mr Bourke believes Reynolds will produce a net profit of at least $500m this year. The group has used the windfall profits to finance most of its modernisation programme and acquisitions internally and to eliminate nearly all onerous debt. Reynolds gearing should be down from 49 per cent in to 42 per cent at the end of this year and 35 per cent half-way through 1989.

However, Mr Bourke says it will not buy back its own shares "because there are better bargains around."

Alcoa reaffirms its faith

MR PAUL O'Neill became chairman and chief executive of Alcoa (the Aluminium Company of America) on April 20 last year and, although it was not particularly clear at the time, his arrival signalled a substantial change of direction by the world's second-largest aluminium producer.

His predecessor as chief executive, Mr Charles Parry, had been taking Alcoa on a dash into new high technology businesses and had forecast that by 1995 up to half the group's revenues would come from non-aluminium operations.

This was unfortunately interpreted by some observers as an indication that Alcoa had lost its faith in the future of aluminium, its core business.

This had implications for the whole aluminium industry.

Since Mr O'Neill arrived, however, diversification has been halted. The new acquisitions are being examined carefully. And Alcoa has reaffirmed its commitment to the aluminium business.

"It is ludicrous to believe that Alcoa can be successful if it is not a success in its aluminium operations because those operations are such a big part of the total business. No diversification can offset that," says Mr O'Neill.

"It is necessary that we are the very best in aluminium – from this springs the rest of the strategic and tactical moves.

"We are also staking out our non-aluminium operations to prove we know what we are doing".

Mr O'Neill is a virtual newcomer to Alcoa. He had been on the board for only 15 months as a non-executive director. Before moving in he was president of International Paper.

Mr Fred Fetterolf, on the other hand, has worked for Alcoa for 35 years and is now president. He has clear recollections of the re-evaluation process under the previous chairman.

Alcoa had for a long while thought that aluminium ingot was becoming a world commodity so it started to strengthen its fabricating operations and to look for new businesseses, he recalls.

There was logic in the diversification. The move into the ceramics industry came because it uses alumina chemicals as a raw material – "we know about alumina and its properties and also had some powder technology we wanted to keep to ourselves."

Activated alumina was widely used in the separations technology business so Alcoa plunged more deeply in. "We had a cadre of technical people who knew the technology".

Mr Fetterolf says it became clear that new materials would continue to replace some traditional aluminium applications in key industries such as aerospace and packaging. The idea was for the group to develop highly engineered products using exotic aluminium alloys, ceramics, composites, powders and plastics.

However, the company rushed ahead in several directions at once. "Now we are saying, let's see if we belong in those businesses, see if we feel we belong in them. Is there growth potential? Can we bring some technology to them. They are all embrionic businesses and you can only have a few at a time," says Mr Fetterolf.

Mr O'Neill looks at the challenges. For example, Alcoa has ventured into electronic ceramics products that will be used to hold integrated circuits in computers. This means: "We have our work cut out in ceramics. There are not many players – but what players: the Japanese and IBM."

Mr O'Neill says that all the new developments are worth pursuing for a time. "But I'm not anxious to take on any more."

When asked bluntly what Alcoa's strategy will be now that he has had time to consider the situation, Mr O'Neill is equally blunt. "It doesn't suit Alcoa's purpose to be too specific or clear about the strategy," he says with a disarming smile.

But he will certainly talk about tactics. Among other things he has strong views about aluminium as an integrated industry. "One thing that damaged many companies is a mistaken idea of integration and that it doesn't matter if one part is below par as long as the whole makes a decent return. That is a dangerous idea. Eventually nobody knows where the money should be made.

"We should hold up each part of the business and compare it with the best in the world. If it does't make its contribution then I don't want it."

Mr O'Neill says he wants Alcoa to produce a 15 per cent return on shareholders' funds – "because if you don't get 15 per cent you are not an investment grade security."

He admits that the search for 15 per cent might be a painful process. Over the past ten years Alcoa's return has been 11 per cent at best and was 5.7 per cent last year.

But much has been done to improve its position in the past few years. In 1985 it put aside $256m to cover the cost of taking out 350,000 tonnes of primary aluminium smelting and related capacity.

That represented a 25 per cent reduction.

There was also an 18 per cent reduction in salaried staff and in the contract negotiations with the hourly-paid Alcoa won much more flexibility in working practices.

Since Mr O'Neill's took over, Alcoa has also written off $231m of assets and costs which could not contribute to attaining the 15 per cent return; retired nearly $300m of high-cost debt and sold oil and gas assets "not essential to achieving our strategic goal" for $47m.

Mr O'Neill says: "People don't pay much attentions to deals of that size. But I can tell the difference between no return on $50m and a 15 per cent return."

The group also improved its position in Jamaica by negotiating a new relationship with the government there and in Brazil took advantage of discounts available on Brazilian debt to strengthen the capital structure of the subsidiary there.

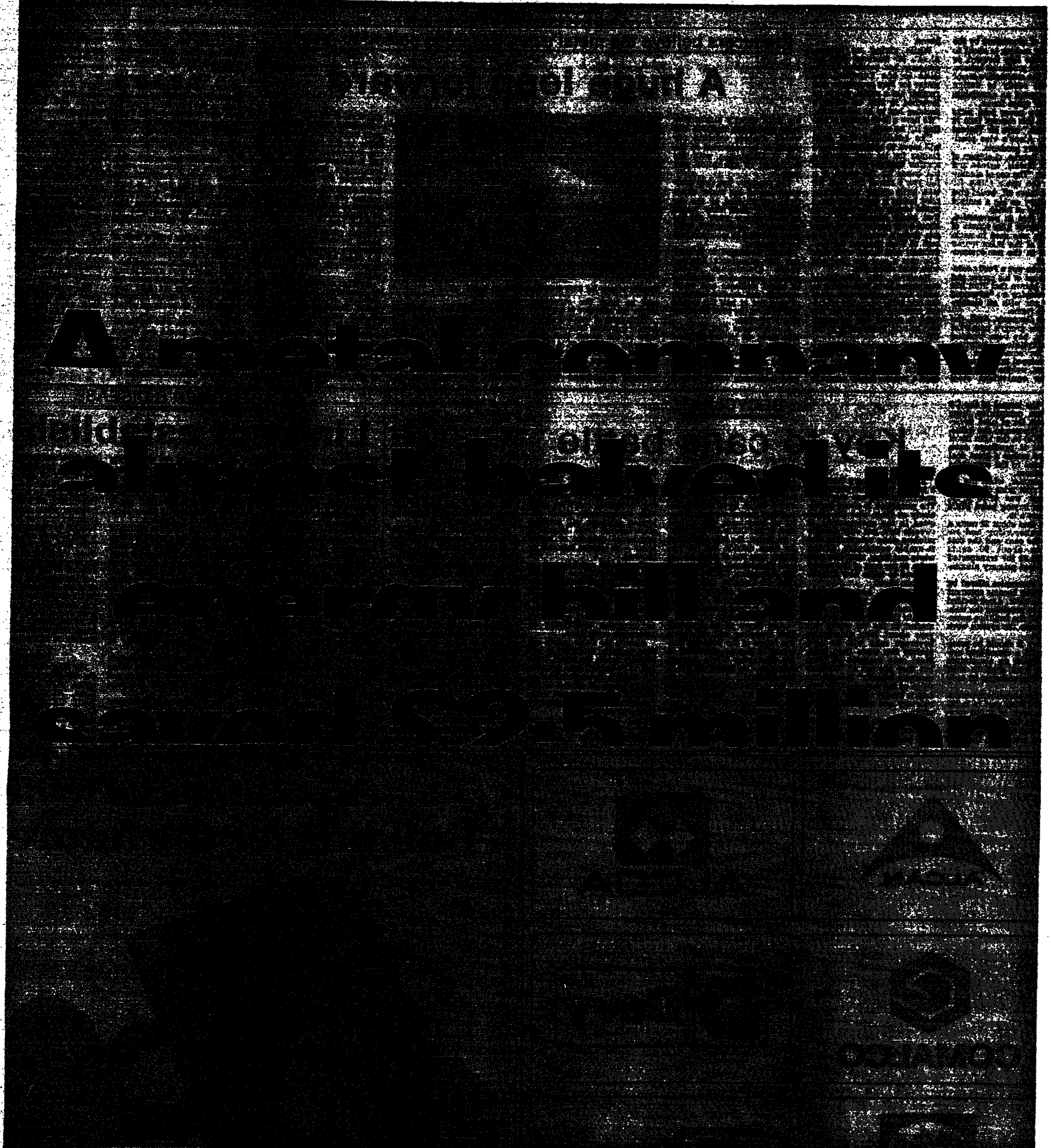
Mr O'Neill says: "We've effectively recapitalised Brazil and it has made a phenomenal difference. It has taken us from a position where we would have been forced to put huge sums into Brazil to a recapitalisation at 50 cents on the dollar."

He reckons that Alcoa is not given enough credit for the daring steps – for a US company – it took in the past when it went to Australia and Brazil for some of its primary aluminium production.

The company currently is involved in talks about a joint venture smelter in Venezuela. "The future means we need to be interested in and knowledgeable about places like Venezuela. But we won't go there unless we get a good, risk-related return."

Mr O'Neill insists that the aluminium industry faces growing internationalisation of business activities and competition. "The lesson has not been well-learned yet in the US that we don't live in an island economy.

"There are others who want our markets. We saw, when currencies blew against the dollar, that the competition was waiting just below the surface."



Producers believe the metal's use in cars is poised to make . . .

A huge leap forward

THE USE of aluminium by the world's car makers is about to make a huge leap forward, or so the metal producers believe. They say the automotive sector is at last ready to design vehicles around an aluminium skeleton or space frame.

"We have never seen more interest in this concept than at the moment," says Mr Vincent Scorsone, Alcoa's vice president, primary products.

Mr Bill Bourke, chairman of Reynolds Metals, agrees and points out: "The use of aluminium for the space frame for cars, if it takes off, would give this industry as big a market as cans give us today.

To put that in perspective, last year about 2.5m tonnes of aluminium was used in packaging out of the 12.9m tonnes produced in the non-communist world.

Mr Bourke was a Ford executive for most of his career and it is well known that Ford has been developing an "advanced concept" car with an aluminium space frame.

In West Germany, Audi, the Volkswagen group's upmarket subsidiary, has been working on an aluminium prototype vehicle for some time. The body, developed in conjunction with Alcoa, weighs 286 lbs less than the equivalent steel frame.

While giving no names, Alcoa's Mr Scorsone says his company has provided quotations to one European car maker for four prototypes and another has a model, due to be launched in 1993, on which a decision has to be made soon. "We have a 50-50 chance of getting it," he says.

The possibility that Audi will move to aluminium space frames for its cars provides another example of the potential bonus for the metal. If a full year's run of the Audi 100 was built using aluminium alloy bodies it would use about 20,000 tonnes of the metal. Yet that model accounts for only about 8 per cent of the Volkswagen group's output and 3 per cent of West German car production. And world wide over 45m cars a year are produced with steel structures.

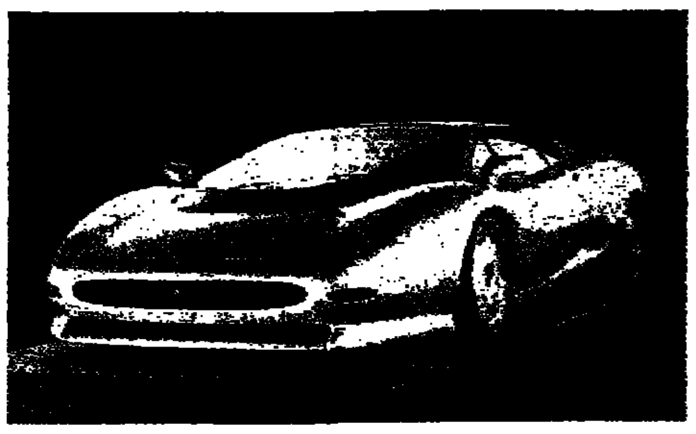
However, the aluminium companies have been trying to make the breakthrough since the late 1970s when the oil crises focussed attention on the need to reduce fuel consumption by cars, particularly in the US.

Why do they now feel so confident? The answer is that Alcan, the world's biggest aluminium producer, has developed a process totally compatible with today's automotive mass production methods and which enables existing car plants to be converted to the use of aluminium with the minimum of disruption and cost.

The company has thus overcome one of the major objections put forward by the car makers – that they would have to throw away all the expensive equipment they have installed to assemble bodies from steel.

Alcan developed a technology for adhesively bonding sheet aluminium which enables automotive structures of equal stiffness and equal strength and crash-worthiness of steel but at half the weight and without the need for corrosion protection.

A continuous film of adhesive along all joining surfaces and flanges provides the main load-bearing joining function to the structure. A few spot-welds are necessary to provide peel resistance under impact and to hold the structure before the adhesive is cured.



Jaguar's new XJ 220: an all-aluminium body

"This form of bonding significantly increases fatigue endurance to the extent that it is superior to that of a spot-welded steel structure of equal stiffness," says Ms Germaine Gibara, director of Alcan's Aluminium Structured Vehicle Technology.

"Finite element structural modelling confirms that the gauge of aluminium to be used is largely determined by stiffness rather than strength. Medium strength, corrosion resistant, low cost aluminium-magnesium alloys of high formability characteristics can, therefore, be used".

However, since the key to good bond strength and durability is the pretreatment of the aluminium prior to bonding, and since the pretreatment techniques which had been developed for aircraft structures were not appropriate for volume car production, it was necessary to develop a method of application at high speed and low cost.

Alcan came up with a coil-to-coil pretreatment and prelubrication system, permitting the sheet metal to be used in existing car manufacturing plants.

Another objection to the use of aluminium in cars was the difficulty of spot welding the metal. Alcan developed a way of spot welding through several layers of metal plus the adhesive without the need for constantly dressing the electrode tips of the welders.

To prove its point, Alcan in recent years has built 19 cars of six different designs and is in the process of sharing in engineering two entirely new prototypes that will make their appearance in the next few months.

The first car to employ Alcan's ASV technology was the ECV3, designed by Mr Spen King in the late 1970s when he was vice chairman of BL Technology, part of the state-owned British vehicles group. Today Mr King is a consultant to Alcan.

A broader test programme, involving six aluminium structured Metros, followed the ECV3 and this fleet has been subjected to the customary industry test procedures during which they survived the equivalent of twelve Detroit winters.

In 1986 Alcan built a fleet of five Fiat-Bertone X1/9s and has worked with General Motors to build two ASV Fiero replicas.

Ms Gibara says Alcan is now at work with several major car manufacturers on ASV projects, either to design complete structures or parts of structures.

As for cost, she acknowledges that, pound for pound, aluminium is roughly three times the price of steel. However, aluminium requires half the weight; scrap can be more valuable; there is potential for cost saving from secondary weight reduction; there is no need for rust proofing; only 25 to 35 per cent of the spot welds are necessary; tooling costs are low for small volumes and there are possible savings in finishing as anti-corrosion waxes and sealants can be eliminated.

"We believe the total savings will largely make up for the added cost of the metal, resulting in a cost difference of nothing to $100, depending on car design and the type of finishing system chosen," says Ms Gibara.

Mr Scorsone at Alcoa believes the major benefit will come from the low tooling costs. "The cost of tooling up for a new model is minimal. The space frame can be changed for peanuts. So you can have short, low-volume production runs and get your money back".

The aluminium car, he suggests, will take the "personalised car" concept to the extreme and there is the potential for manufacturers to change a model's style every year rather than every three to five years, the norm today with steel structures.

Kenneth Gooding

RECYCLING

Key to cans battle

ALCOA, the largest of the US aluminium companies, uses about 600m lbs of used beverage cans (known in the industry as UBCs) in the 1.5m lbs of can sheet it produces each year. That makes a great deal of difference to the economics of its business.

This summer, when the US mid-west spot price of primary aluminium was $1.16 a lb, Alcoa was buying baled UBCs for 68 cents a lb.

Add to that about 22 cents a lb for transporting and remelting the cans and the cost comes to about 90 cents against $1.22 for transported and remelted primary aluminium.

As the economies offered by can recycling became apparent during the 1980s, Alcoa decided to invest in providing the technology and the facilities necessary to make the system work efficiently.

In theory it should be possible to build a closed-loop system in which an aluminium can goes from shelf to shelf through reprocessing in only 90 days.

The other aluminium companies played their part in building a network of 10,000 recyclers in the US. One educated guess is that about 30,000 jobs have been created in the UBC business.

Alcoa spends more than $6m a year in the States promoting and advertising can recycling. The promotion is aimed particularly at those who are interested in the environment. It stresses that, not only are aluminium cans returnable and re-usable containers, saving waste and litter, they also save about 95 per cent of the energy required to make new aluminium can sheet.

Recycling has certainly played its part in the aluminium industry's victory over steel in the beverage container market in the US where this year about 75bn aluminium beverage cans will be used against 3bn made from steel. Steel cans compete on price but they are not so "environmentally friendly" because the value of the material they contain is simply too low to make recovery and recycling worthwhile.

About 58 per cent of the aluminium cans will be recycled. "We believe we can get that up to 75 per cent," says Mr George Cobb, president of Alcoa Recycling Company. That will not be easy. Even in the 12 US states which have laws insisting that customers pay deposits on containers, only 72 per cent of the UBCs are recycled.

In Japan, the largest market for cans outside the US and which uses 5bn of them (84 per cent aluminium), 40 per cent of the aluminium UBCs are recycled. In Canada, one of the world's major aluminium producers and home of Alcan, the world's largest producer, the recycling rate is 60 per cent.

And there is no question that recycling will determine the future of the beverage container in Europe, according to Mr Alexander Wirtz, general manager, Can Recycling, Alcan Deutschland.

He is coordinating the efforts of Alcan, Alcoa, Reynolds Metals, Pechiney and VAW to promote aluminium can recycling in Europe, efforts the companies hope will give them a bigger share of the can market in the struggle with steel.

Mr Wirtz suggests that, as awareness grows for the need to conserve natural resources, only attractive recycling rates with economically viable collection schemes will prevent governments from imposing mandatory deposits or heavy taxes – as present imposed by Norway.

There is an outright ban on one-way containers in Denmark (although that country exports a great deal of lager in containers which don't come back) and the European Commission has issued a directive to promote recyclable or returnable containers.

Alcoa's Mr Cobb points out that, to make recycling in any country worth the effort, there has to be enough cans entering the market. In western Europe most countries prefer either steel or glass containers made from raw materials supplied by domestic producers.

Italy is a major exception and a country targetted for recycling projects. It uses 2bn cans of which 90 per cent are aluminium.

The UK is more difficult. It uses 5bn cans but half of them are steel. It suits the can users to keep the aluminium and steel industries fighting for their custom. The difficulty of persuading people to sort steel from aluminium – for never the twain shall be mixed – has contributed to the fact that only about 5 per cent of aluminium UBCs are currently recycled in the UK.

However, not only are the aluminium companies making a concerted attack with joint promotional efforts, both Alcoa and Alcan might step up the pace in Britain with their own schemes.

Alcoa intends to set up recycling centres to collect used cans, probably at Swansea and Stratford-upon-Avon.

Meanwhile, Alcan's UK subsidiary is considering spending as much as £25m on a plant to re-melt UBCs at its Warrington, Lancashire, aluminium recycling facility.

Alcan admits that, to start with, it might have to feed the plant with UBCs imported from the US but points out that, as it is, tens of millions of new steel cans are imported into the UK each year.

Kenneth Gooding

ALZHEIMER'S DISEASE

Link not established

QUESTIONS HAVE been raised in recent years about a possible link between aluminium and Alzheimer's disease, a brain disorder which caused memory loss and other behavioural changes.

Alzheimer's disease is estimated to affect about 2.5m people, mostly elderly, in the US alone and consequently that country's Food and Drug Administration (FDA) is now compiling analytical data on the aluminium content of the foods in its "Market Basket Survey."

The FDA says it "has no information at this time that the normal dietary intake of aluminium, whether from naturally occurring levels in food, the use of aluminium cookware, or from aluminium-containing food additives, or drugs is harmful."

The evidence linking aluminium to Alzheimer's disease is "not strong", according to the FDA. It acknowledges that a common, but not universal, finding in the condition is an elevated brain aluminium content but points out that, while some researchers argue that the presence of aluminium in degenerated neurons causes the disease, others hypothesise that the disease itself alters body chemistry to allow accumulation of aluminium.

All of the possible causes of the disease are currently being investigated. "There have been no conclusive findings as yet".

In its natural chemical form aluminium is the third most abundant element in nature after oxygen and silicon. The FDA says that, while aluminium has no known biological function and is not considered essential to the human diet, it is ubiquitous in the environment and occurs naturally in many foods.

So it appears that aluminium is relatively non-toxic since humans are so widely exposed to it in food, water, cookware and drugs.

Aluminium compounds have a number of uses as direct food ingredients such as, for example, alums in baking powder and pickles. "Such uses are generally recognised as safe by scientists qualified to evaluate the safety of food additives," says the FDA.

According to a study by the University of Wisconsin, the average adult American diet includes between 20 and 60 milligrams of aluminium a day of which 20 to 50 milligrams come from FDA-approved food additives. Another 2 to 10 milligrams come from the natural content of the foods eaten.

By comparison, metallic aluminium products (as distinct from naturally-occurring chemical aluminium) such as cookware can add only a maximum of 3.5 milligrams a day. In contrast, one antacid tablet may contain 50 milligrams or more.

Kenneth Gooding

For more information contact: the US FDA, Consumer affairs office, HFE-88, 5600 Fishers Lane, Rockville, Maryland, 20857, US or the Alzheimer's Disease and Related Disorders Association, 70 East Lake Street, Suite 600, Chicago, Illinois 60601, US.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday October 26 1988

INSIDE

Luxembourg adopts low-key approach

Tucked away in an anonymous office building in the centre of town, the Luxembourg stock exchange has none of the grandeur usually associated with other European financial centres. But the exchange's low-key appearance belies its reputation as one of the world's most important centres for listing and trading in international bonds. At the end of July, the official list constituted 2,300 issuers from about 50 countries, with international borrowers accounting for the vast majority of the 5,385 bonds listed. Page 44

Grim harvest in the cornbelt

Farmers across the cornbelt in the US midwest are harvesting less than half their usual crop, devastated by the worst drought to hit the region this century. "Nothing makes sense this year," says one farmer, "there's no pattern to the damage." Many families face a large income drop, which will be only partly compensated for by aid included in President Reagan's Drought Relief Bill. Deborah Hargreaves examines the long-term repercussions for rural economies and commodity prices. Page 40

Banking on quiet consolidation

A string of small but significant developments in Deutsche Bank's core banking business, particularly on the securities side, have been overlooked amid increasingly frenzied speculation about today's meeting of the supervisory board, which many expect will decide definitively on a long-awaited move into life assurance. Slowly but surely West Germany's biggest bank is pulling its international securities trading business together, particularly as far as government debt in Europe is concerned. Page 22

Rebirth for Australian bonds

Australia's dormant corporate bond market has burst into life, offering a fresh source of funds to some of the country's biggest names. However, although funds are now readily available and the investment environment is favourable, the market's growth depends on the number of quality names prepared to tap it and, more crucially, the development of a functioning secondary market with enough liquidity to ensure that paper remains marketable over its lifetime. Page 25

Crédit Agricole surges ahead

First-half earnings at Crédit Agricole, France's largest bank, have climbed to FFr1.09bn ($176.6m), exceeding its FFr251m income for the whole of 1987. The increase was attributed principally to portfolio investments from international branches and the reorganisation of treasury management. The strong result will provide ammunition for Mr Bernard Auberger, director general, whose position within the group has come under fire in recent weeks. Page 22

Poundstretcher on the block

Lowndes Queensway, headed by Mr James Gulliver (left), has formally put up for sale its Poundstretcher chain, comprising 160 clothing stores, for which it hopes to fetch between £60m and £70m ($121.8m). Lowndes Queensway is believed to have already been offered £50m for the chain from management and the auction appears to be an attempt to flush out a higher bid. Page 29

Market Statistics

Base lending rates	36	London share service	38-39
Benchmark Govt bonds	24	London traded options	25
European options exch	36	London tradit. options	38
FT-A indices	25	Money markets	36
FT-A world indices	44	New int. bond issues	25
FT int bond service	25	World commodity prices	40
Financial futures	36	World stock mkt indices	41
Foreign exchanges	35	UK dividends announced	28
London recent issues	25	Unit trusts	32-35

Chief price changes yesterday

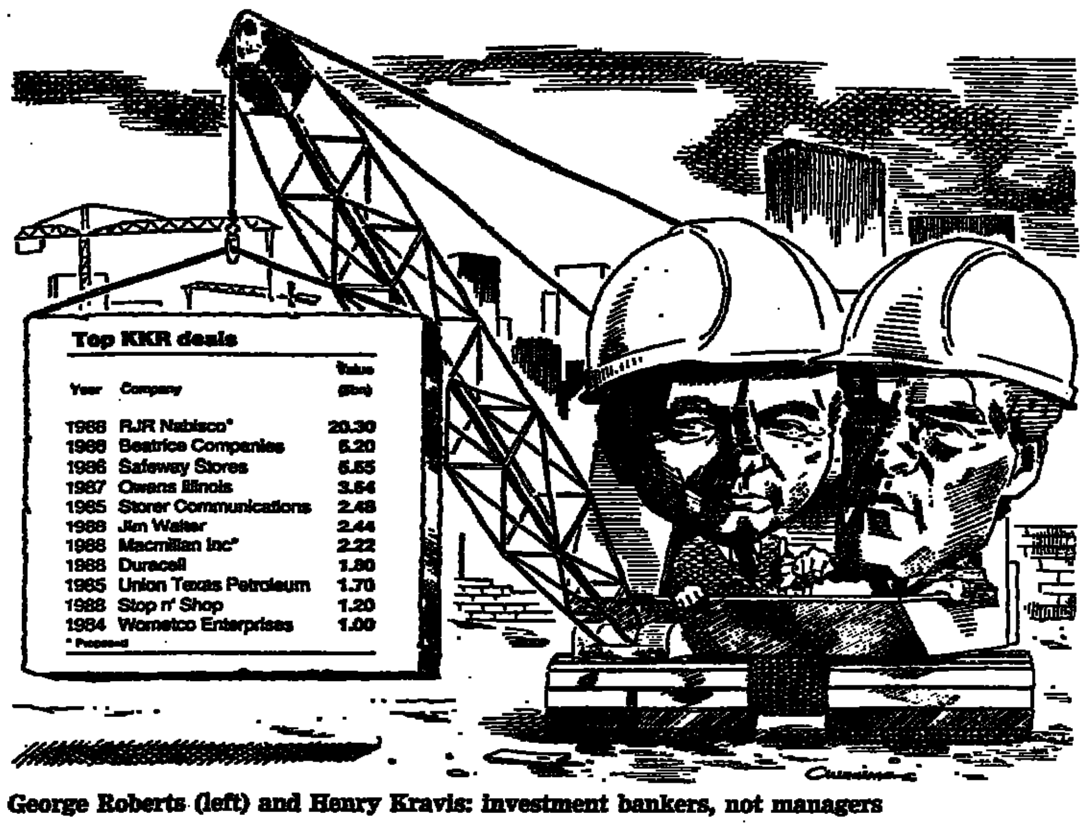
FRANKFURT (DM)			
Rises			
MAN	214.3	+	3.8
Volkswagen	305	+	5
NEW YORK ($)			
Rises			
Church's Fr Chk	7⅞	+	⅝
Goodyear T&R	52¾	+	1¾
Pfizer	45½	+	3½
Williams Cos.	37¾	+	1½
Falls			
Cray Research	60¼	–	6⅝
Delchamps	24⅛	–	1⅞
PARIS (FFr)			
Rises			
Carnaud	516	+	45
Nouvelle Gal.	524	+	42
Spie-Batign'les	458	+	38
Matra	218	+	17
Falls			
Talcs Luzenac	1013	–	66
TOKYO (Yen)			
Rises			
Gajoen Kanko	900	+	84
Kinsho-Mataichi	769	+	64
Nisshin Steel	1140	+	80
Falls			
Totetsu Kogyo	822	–	122
Housel	1470	–	90
Nippon Yusoki	625	–	25

New York prices at 12.30.

LONDON (Pence)			
Rises			
Boosey & Hawkes	238	+	9
Cohen (A.)	£13½	+	¾
Cowie de Groot	62	+	4
Geers Gross	58	+	7
Green Prop.	153	+	10
Hambros	265	+	15
Minorco	658	+	12
Stanley Leis.	270	+	13
Unilever	479	+	11
Falls			
Barclays	417	–	10
Berkeley Govett	165	–	7
Charter Cons.	426	–	18
Cons Gold Flds	£11⅞	–	1¼
FR Grp.	215	–	11
J.S. Pathology	275	–	9
Johnson Matthey	337	–	28
Lonrho	354	–	10
Midland	417	–	15
NMW Computers	66	–	9
Nat. West.	551	–	9
Pressac	166	–	15
Yale & Valor	358	–	20

Reshaping America's corporate skyline

Anatole Kaletsky on the remarkable power wielded by KKR, which dominates the buy-out industry



Top KKR deals

Year	Company	Value ($bn)
1988	RJR Nabisco*	20.30
1986	Beatrice Companies	6.20
1986	Safeway Stores	5.65
1987	Owens Illinois	3.64
1985	Storer Communications	2.48
1986	Jim Walter	2.44
1988	Macmillan Inc*	2.22
1985	Duracell	1.80
1985	Union Texas Petroleum	1.70
1988	Stop n' Shop	1.20
1984	Wometco Enterprises	1.00

* Proposed

George Roberts (left) and Henry Kravis: investment bankers, not managers

When Mr Jerome Kohlberg, the senior partner of Kohlberg Kravis Roberts & Company, resigned abruptly in June 1987, the founding partners of the world's most powerful investment institution spoke out in public for the first, and last, time.

"Jerry may have felt the deals were getting too big," was Mr George Roberts' brief explanation of his partner's unexpected decision to leave KKR to found his own small investment firm. The pointed rejoinder from Mr Kohlberg was: "I won't restrict myself to small transactions, but I will stick with deals where reason still prevails."

At that point KKR, the company that virtually invented the leveraged buy-out (LBO) and still overwhelmingly dominated the business of taking large listed companies private, had already completed the two $6bn acquisitions – Beatrice Foods and Safeway Stores – which smashed all records for the scale of such transactions, and changed forever the world's perceptions about the possibilities of gigantic LBOs.

Today, almost a year and a half later, this terse interchange could go down in history as a fitting epitaph for a whole decade of financial hubris.

The issue of financial hubris arises most obviously because of the sheer size of the two LBO proposals announced during the past few days for RJR Nabisco, America's eleventh largest non-oil company. Even before Monday's $20bn bid from KKR, the initial $17bn LBO proposal from Shearson Lehman Hutton made it quite clear that the LBO industry's ambitions now recognised no limits. Some analysts are now suggesting that after despatching the tobacco industry, the next logical step for the LBO community could be to take on the two far greater sectors of undervalued companies which dominate the US economy – oil and motor cars.

But every bit as significant as the issue of size are two questions raised on the the battle over RJR's future.

The first is simply what KKR – a firm with only 50 employees, including secretaries and filing clerks – is doing presiding over the greatest diversified industrial empire in the world. A takeover of RJR would raise the total sales of KKR-controlled companies from $35bn to more than $50bn. In this very crude sense, KKR would become the fifth largest corporate entity in America, just behind IBM and ahead of Mobil.

The second is whether the struggle between KKR and Shearson over RJR's future is symptomatic of a new and more dangerous era of buy-out fever – an era of aggressive competition between huge pools of buy-out money that will eventually raise LBO prices to unrealistic levels and vindicate Mr Kohlberg's self-denying ordinance to "stick to deals where reason still prevails."

The two questions are closely related, for the success of past buy-outs, in the face of even greater scepticism than is expressed on Wall Street today, is the basis for confidence in ever more ambitious LBOs. Even more importantly, the huge profits made in the past, particularly by KKR's investors, are the main inspiration for the financial institutions and commercial banks which are now pouring virtually limitless sums of money into the LBO pools.

The KKR partners themselves have never made any claims for managerial brilliance. Their business associates specifically ridicule the idea that KKR is turning into a latter-day industrial conglomerate comparable to General Electric or the old ITT. With only 19 professionals divided between the firm's two offices in New York and San Francisco, it would be inconceivable for KKR to play an active part in the management of the 30-plus companies it controls at the same time as scouting out new and ever more ambitious acquisitions.

Like Mr Kohlberg, who founded the firm in 1976 after resigning as head of investment banking at Bear Stearns, the firm's five remaining general partners – Henry Kravis, George Roberts, Robert MacDonnell, Paul Rather and Michael Michelson – are investment bankers, not managers. What KKR does is to put its partners on the boards of the companies it buys, provide investment banking advice and supervise the main strategic decisions and annual budgets.

"The firm's aim is not to hold on to its companies, but to sell or float them on the stock market after five years, either in whole or in pieces. And if there is any objective indicator of KKR's performance it comes from the huge profits which these sales have generated in the past.

The partnership's first three buy-out pools, which were put together between 1978 and 1982 and added up to about $400m in equity, generated annual compound returns of between 30 and 45 per cent, according to the documents which KKR circulated to potential investors in its latest and largest equity pool: the $5.6bn fund the firm put together last summer about the time of Mr Kohlberg's departure.

These were impressive returns by any standards, especially considering that they were calculated after deducting the firm's own large fees and profits. KKR charges its institutional investors in three separate ways. It takes a management fee of 1.5 per cent annually on the entire sum of undisbursed money committed to its latest equity pool. (This alone comes to more than $75m annually at present, and explains why KKR's investors have been putting pressure on the firm to find ways of spending their money.)

KKR also charges a normal investment banking fee for each transaction, typically between $50m and $75m for a buy-out worth several billion dollars. Finally, the firm keeps 20 per cent of any profits generated on its investments, despite the fact that its own contribution to the equity capital in its buy-out pools is believed to be less than 2 per cent.

Even after all these deductions, the return on equity to all KKR's investors has averaged about 40 per cent annually. To many on Wall Street it seems that no further testament is needed to the soundness of the firm's judgement and the fundamental stability of the LBO business.

Before concluding, however, that critics of the buy-outs have been entirely confounded by past success, it is worth noting the power of leverage to multiply profits in a bull market like the one that occurred between 1982 and 1987. Suppose you invested $1bn in 1982 in the Dow Jones Industrial Average and sold the investment at the stock market's peak in August 1987. If $125m of this $1bn was equity and the other $800m was debt, borrowed at 15 per cent interest, the compound annual return on the equity would have been 48 per cent. Even deducting 20 per cent of the profits to simulate the share taken by the KKR partners, the return on a simple leveraged investment in the Dow would still have compounded at 41 per cent annually.

This calculation may be crude and oversimplified, but it does draw attention to the most important single issue facing KKR, along with all the investors

Cathay City may raise offer for HK hotels group

By John Elliott in Hong Kong

CATHAY CITY, the Hong Kong finance company run by Mr Lo Yuk Sui, is expected to make a new bid for Hongkong and Shanghai Hotels following a day of hectic activity yesterday which ended with independent directors on Hongkong Hotels' board recommending shareholders to reject rival takeover offers from both Mr Lo and the controlling Kadoorie family.

The hotels company, whose flagship is the Peninsula Hotel in Kowloon, is fighting off its second takeover bid in 18 months.

Yesterday morning, the Kadoorie family moved swiftly to buy 21.34m shares, raising its stake from 34.9 to 37.2 per cent of the issued share capital. By going above 34.9 per cent, it was forced by law to make a general bid for the company's remaining shares, which it did at the HK$5.80 morning buying price.

Trading in the company's shares was suspended after 17 minutes, by which time the Kadoorie family had bought the new shares.

Later the hotel company's board met and a committee representing non-Kadoorie interests recommended shareholders to reject both the Kadoorie bid and Mr Lo's offer, which consisted of HK$4.80 in cash and one Cathay share valued at HK$1.50.

The committee, which included Mr Hanmer Webb-Peploe, managing director, said it considered "both the Cathay City and the Kadoorie offers to be wholly inadequate." It recommended that shareholders take no action in relation to either offer.

Although this initially looked like a boardroom split with independent directors turning on the Kadoorie family, some brokers believe the recommendation could help the Kadoorie family as it could limit the number of shares they have to buy. It could also provoke Mr Lo into his expected improved offer.

Mr Lo runs Regal Hotels, a fast-expanding hotel business in Hong Kong. Recent acquisitions include the Aircoa hotel management chain in the US.

Mr Lo believes Hongkong Hotels would perform better under tighter management control than is currently provided by its present board, headed by Mr Michael Kadoorie, son of Lord Kadoorie.

If he won control, Mr Lo is widely expected to sell some of the group's property and other interests, which include large flats developments and Hong Kong's famous Peak Tram.

The Kadoorie family is being advised by Jardine Fleming, while Hongkong Hotels' advisers are Schroder and East Asia Warburg. Wardley, part of the Hongkong and Shanghai Banking Corporation, is advising Mr Lo and, along with another branch of the Hongkong Bank, the Hang Seng Bank, and a Japanese bank has put together a HK$3.25m (US$420,000) loan needed by Mr Lo for his bid.

Standard refuses to allow Bond to dispose of stake

By Nick Bunker in London

STANDARD Chartered, the UK banking group, has refused to give permission to Mr Alan Bond, the Australian businessman, to proceed with a plan to sell the 14.9 per cent stake in the group held by Bond Corporation before the November 4 completion date for Standard's £303m ($529m) rights issue.

Officials at the bank yesterday declined to comment on the reasoning behind their decision not to release Bond Corporation from an undertaking not to sell the shares before the end of the rights issue.

There were unconfirmed reports from London stock market traders last night, however, that Bond Corporation might go ahead with a conditional placing of its stake with UK institutional investors. The stake is currently worth about £115m on the open market.

Some analysts doubt that Bond's plan was to dispose of the shares to a single buyer, possibly with takeover ambitions. Standard Chartered had been viewed by some as "a sitting duck" for a bid for the last year.

Bond Corporation acquired its 23.33m shares in Standard this summer, as part of its takeover of Bell Group International, a former investment vehicle for Mr Bond's fellow Australian financier Mr Robert Holmes à Court.

Within weeks,however, there were rumours that Bond was looking for buyers for the holding, but according to the bank Bell Group International gave a public undertaking to subscribe in full for its entitlement of shares under the rights issue and not to sell its existing shares until November 4.

Sears profit fall renews takeover speculation

By Deborah Hargreaves in Chicago

SEARS, the world's biggest retailer, has reported a sharp decline in its third-quarter income as weak apparel sales depressed performance. Wall Street speculation that the company could become subject to a takeover bid was renewed by the poor performance.

Third-quarter income at $344.2m or 90 cents a share fell 17 per cent from earnings of $409m or $1.08 in the same period last year. Revenues for the period rose to $13.35bn from last year's $12.19bn.

The result marks the third consecutive income decline by the company, pushing it far adrift from its target to exceed last year's earnings.

Sears' income was affected by weak results in all divisions, except for its Dean Witter Financial Services group which turned last year's $4.2m third-quarter loss into a profit of $20.1m.

Performance was poorest in the company's merchandise division, which has been depressed by intense competition and flat sales in the retail sector as a whole.

The division posted income of $135.4m, down from $170.4m in the year-ago period. Revenues, up at $7.49bn from $6.96bn, included sales for Western Auto Supply, which Sears acquired earlier this year.

For the nine months, Sears reported net income of $893.1m or $2.35 a share, falling from $1.09bn or $2.86 in the first nine months last year. In the same period, revenues rose to a record $38.49bn from $34.39bn.

In announcing its results, the company backed away from previous forecasts that its full-year earnings would top those of last year.

Analysts doubt that Sears will even be able to meet last year's income level.

Mr Walter Loeb, retail analyst at Morgan Stanley, said he had reduced his earnings estimate for the company to $4 a share from last year's $4.35. "Overall, this is a very disappointing report, primarily because of a lack of merchandise sales," he said.

The stock price for Sears, which has been plagued by takeover rumours in the past month, has regularly underperformed the market this year. Heavy trading has pushed the company's shares up by $5 in recent weeks and speculation has been rife that the retailer may be forced to sell one of its divisions to restructure.

The company's shares were trading up $½ yesterday, at $43⅛.

Texaco earnings surge to $239m

By James Buchan in New York

TEXACO, long-derided as the most pedestrian of the large US oil companies, yesterday turned in the strongest performance yet seen in the US oil patch in the third quarter with its net income more than doubling to $239m or 98 cents a share.

Texaco's surge in profits, which far outpaced Mobil's improvement in the third quarter also reported yesterday, was achieved despite poor oil prices and an actual loss from producing oil in the US. Texaco was helped because prices for gasoline and other products it sells through its vast marketing network in the eastern US held up better than crude prices and allowed Texaco good profit margins.

At the nine-month stage, Texaco's earnings were $1.01bn or $4.14 a share, nearly three times the $355m or $1.46 a share of the first three quarters of 1987. But Texaco, which is in the throes of a drastic reorganisation of its business, took a special gain of $301m or $1.24 gain in the 1988 nine months from the sale of its West German subsidiary.

The exclusion of Deutsche Texaco caused third-quarter sales to fall modestly to $8.7bn, while nine-month revenues were up a shade at $26.8bn.

Mobil, which ranks below Exxon and above Texaco at the top of the US industry, reported that its third-quarter earnings rose from an underlying $309m or 75 cents a share from continuing operations to $557m or $1.36 a share. But the 1988 figure includes a special tax credit of $157m, offset by a $65m write-off. Revenues fell modestly to $13.12bn.

After nine months, Mobil was 92 per cent ahead from continuing operations at $1.59bn or $3.86, but results were distorted by a host of special factors.

Revenues rose from $37.12bn to $40.99bn.

INTERNATIONAL COMPANIES AND FINANCE

Decision day for Deutsche Bank

Haig Simonian looks at the questions facing today's board meeting

West German newspapers and tip sheets have been speculating wildly about today's meeting of Deutsche Bank's supervisory board, which many expect will decide definitively on the bank's long-awaited move into life insurance.

But the press's recent preoccupation with insurance has led many observers to overlook a string of much smaller, but nevertheless significant, developments in the bank's core banking business, particularly on the securities side.

The steps have not been big in themselves. Last month's planned acquisition of a 50 per cent stake in Bain & Company, a leading Australian broker, remains the bank's most recent important initiative.

However, a string of other developments confirm that the bank is slowly but surely pulling its international securities trading business together, particularly as far as government debt in Europe is concerned.

France and the Netherlands are key points of interest in that strategy. In Paris, Deutsche Bank has put aside its plans to buy a French bank; the new French government has put the brakes on privatisation and the Germans do not seem too enthusiastic about what is already available in the private sector.

Buying a French broker is also low on its list of options, partly on the grounds of poor value for money. A French broking house would probably only be interesting if it also came with substantial funds under management. Otherwise, Deutsche Bank's view seems to be that good people can be bought, even if that takes time.

French government securities play a key role in its plans. The French market, boosted by the rapid success of the Matif, the French futures exchange, has steadily gained in importance, and the bank would clearly like to be better represented on the ground.

The Netherlands is not far behind in the list of priorities. Dutch government securities are an important market in their own right, and have gained in interest as a result of their role as a substitute for German government paper.

Deutsche Bank already has some access to the Dutch market through its 50 per cent stake in Albert de Bary, a small bank which it owns jointly with Amro. It would now like to take full control. Negotiations are said to be progressing, with an outcome possible by the the end of the year. However, the price may still be a sticking point.

Building up de Bary's fledgling securities operation will be a priority. But the bank, which specialises in international trade finance, is also interesting for its international connections. Not least, it has a lively business with Argentina, where Deutsche Bank earlier this year greatly expanded its coverage

Could Deutsche Bank not trade French and Dutch government securities just as well out of Frankfurt given modern telecommunications and information links? Not according to one of its senior executives, who stresses the need to be on the ground to pick up the latest mood and gossip.

Deutsche Bank's view that certain continental European financial centres will gain in importance at London's expense in the years to come has not led it to isolate the City from its plans, however.

Entering the UK gilts market is an important discussion point for senior executives at the moment. The bank is well aware of the overcrowding in the gilts market, from which some banks have already stepped back, while others continue to sustain losses. However, the depth and liquidity of gilts trading makes it a highly appealing venture, despite the slim margins.

The key question for Deutsche Bank is probably whether it can present itself to leading international investors as a credible player in gilts in the same way as such clients would naturally turn to it for German government bonds or certain other continental European fixed-income paper.

Meanwhile, the bank is stepping up its presence on the equities side out of London. Deutsche Bank Capital Markets (DBCM) is taking on four staff from Merrill Lynch in London and New York to build up an international equity dealing operation.

That initiative may have been somewhat opportunistic, say observers, with the bank responding favourably to an attractive concept put forward to it. Thus the arrival of the new team is not thought to spell the start of a major push in international equities out of London.

What is part of the longer-term plan is for DBCM to start quoting German equity prices on the stock exchange's SEAQ price information system by the end of this month. DBCM has had a small team making markets in German equities for almost a year, but this will be the first time they have revealed their talents to the world at large.

DEUTSCHE BANK will announce at the weekend plans for restructuring the capital of Klöckner & Co, the West German trading company which has been hit by losses on oil forward trading.

Mr Heinz Wolf, Klöckner's finance chief, said yesterday that Deutsche would become sole owner of the private trading and engineering group following the capital measures, but did not intend its holding to be permanent.

Klöckner announced on October 12 that it had made potential losses of up to DM700m ($390m) on oil forward contracts and that Deutsche Bank would inject capital to support the company.

Crédit Agricole lifts earnings

By George Graham and Patti Waldmeir in Paris

CREDIT AGRICOLE, France's largest bank, has boosted earnings sharply in the first half of this year, and expects to report consolidated net earnings for the full year of between FFr1.5bn ($244m) and FFr1.8bn.

Net earnings in the first six months totalled FFr1.09bn, more than the FFr839m recorded in the whole of 1987, as the co-operative banking group improved results from its treasury operations, its overseas subsidiaries and its portfolio investment activities.

Mr Bernard Auberger, director general of the Caisse Nationale du Crédit Agricole, said the results were the best the group had recorded since 1980, at the level both of the central Caisse Nationale and of the 94 mutual regional banks which took over control of the Caisse Nationale from the French state earlier this year.

He said every subsidiary had improved except Voyage Conseil, a tourism company controlled by Crédit Agricole.

The sharply higher earnings will provide ammunition for Mr Auberger, whose position within the Crédit Agricole group has come under fire in recent weeks.

After the departure of two senior directors, Mr Gilles Guitton and Mr Jean Fontourcy, rumours began to circulate that Mr Auberger, who was appointed by the last French government before the "mutualisation" of the Caisse Nationale and confirmed in his post by the new board in April, might be forced to leave his post.

Mr Lucien Douroux, who heads the powerful Ile de France regional Crédit Agricole, is widely believed to have ambitions to take control of the Caisse Nationale.

But Mr Auberger said yesterday that he had no intention of resigning and that he believed his management record, which includes handling the sensitive transfer of ownership of the Caisse Nationale to the regional banks, stood up to scrutiny.

"I want to continue my task, and I believe there is no reason for the board to wish to change director general six months after nominating me," he said.

Mr Auberger said the improvement in the Caisse Nationale's own earnings stemmed mainly from its portfolio investments, from the international branches, which had doubled earnings in the first half from FFr95m to FFr190m, and from the [illegible] of its treasury management.

BMW sales rise despite decline in US business

By Our Financial Staff

BMW, THE West German luxury car group, said yesterday that parent company sales rose 12.2 per cent to DM14.22bn ($7.96bn) in the first nine months of 1988 from DM12.67bn a year earlier.

In a letter to shareholders, BMW said group sales reached DM17.8bn in the period, but it did not provide any year-earlier figures. In 1987, group turnover had advanced 11 per cent to DM19.5bn from DM17.6bn a year earlier.

Production climbed 4.6 per cent to 346,336 cars and motorcycles in the first nine months from 330,[illegible] units a year earlier, and is likely to reach 480,000 units in the full year, BMW said.

The profit trend of recent years is continuing in 1988, BMW said, but did not give a specific forecast. Parent company net profit was DM375m in 1987.

While sales in West Germany and other West European countries are increasing, BMW's US business deteriorated as the lower dollar forced price hikes, the company said.

But the introduction of the new mid-range 5 series and of modified models of Series 3, BMW's smallest series, will make a rebound in US sales possible in the future, it added.

Mr Eberhard von Kuenheim, management board chairman, said yesterday that domestic sales of BMW cars were expected to have risen 25 per cent to 154,000 in the first 10 months of the year from 123,391 in the year-ago period.

Skanska profits fall as property sales decline

By Sara Webb in Stockholm

SKANSKA, Sweden's largest construction and real estate group, yesterday reported a 33 per cent drop in profits after financial items for the first eight months. The group said full-year profits would be at the same level as the SKr1.72bn ($277m) recorded in 1987.

Skanska said its operating profit was at the same level as last year. However, profits after financial items fell to SKr946m, compared with SKr1.25bn in the first eight months of 1987, because of lower property sales which brought in net gains of only SKr42m compared with SKr355m the previous year.

Skanska also said that net gains from selling shares were lower this year at SKr195m, compared with SKr278m in 1987. Profits after extraordinary gains were down by 46 per cent to SKr1.05bn.

Turnover increased by 22 per cent to SKr13.67bn in the first eight months and is expected to reach SKr22.5bn in the full year. Skanska recently stepped up its stake in JM, a real estate and construction company, to 64.4 per cent of the share capital and 32.2 per cent of the votes, and said JM contributed SKr1.873bn in sales to the group figures.

Skanska said yesterday it had signed a preliminary agreement to acquire one third of the shares in Selmer Sande Entreprenoer, Norway's largest construction company, for about SKr330m. SSE has a turnover of NKr6bn ($902m) and has forecast profits of NKr160m for 1988.

Fryckman defends investment in UBF

MR PETER Fryckman, the Helsinki businessman, said share purchases in Union Bank of Finland, which made him the bank's biggest shareholder, were made on his own account.

He told a Finnish newspaper: "I bought the UBF shares on my own, I am responsible for them on my own and I consider them to be an extremely good investment."

Earlier this month it was disclosed that Mr Fryckman had amassed a stake worth about FM700m ($165m) and could control about 6 per cent of UBF's votes. UBF says it is not concerned at the build-up.

Cray shares fall to $60¼ after downturn

By Robert Vincent in New York

SHARES OF Cray Research, the world's leading supercomputer maker, fell sharply yesterday in New York. The decline of $8¾ to $60¼ followed the announcement that the group's net earnings in the third quarter had fallen to $22.6m from $38.1m the year before.

One analyst, Patricia Laupheimer of Shearson Lehman Hutton, said the market believed Cray, which had predicted 10 per cent revenue growth next year, would be hard pressed to raise earnings at the same rate and that its shares would stabilise around the $60 mark. This year Cray predicted earnings growth would lag behind revenue growth because of development costs.

Cray, whose earnings per share for the quarter fell to 73 cents from $1.14, said that because of new products and customer schedules a disproportionate share of the year's installations would occur in the fourth quarter.

Mr John Rollwagen, chairman, said: "Customers accepted 36 systems during the first nine months, and we expect 27 systems will be accepted in the fourth quarter. Eleven of these have already been shipped."

He pointed out that if that level of acceptances was achieved revenues for the year "should be very close to 10 per cent over last year."

Revenues for 1987 were $687m which produced net earnings of $147m or $4.65, but at the nine-month stage this year the group's revenues were down to $425.4m, against $523.7m, while earnings dropped to $68.1m from $113m.

Tandem and Amdahl ahead as sales boom

By Louise Kehoe in San Francisco

TANDEM AND Amdahl, the US computer manufacturers, reported strong gains in sales and earnings for the quarter ending September 30, as both companies noted increased momentum in the US computer market.

For Tandem, reporting fourth fiscal quarter results, the period produced record sales and earnings after some weakness earlier in the year.

The California manufacturer of fault-tolerant computers for the on-line transaction processing market achieved revenue of $384m, a 31 per cent increase over the $293.8m posted in the same quarter last year. However, net income rose only slightly to $30.1m, or 31 cents per share, compared with $29.8m or 30 cents per share, in the fourth quarter of 1987.

Results for the fourth quarter of fiscal 1988 reflect the consolidation of financial results of Ungermann-Bass, and Tandem Telecommunications Systems, which merged with Tandem earlier in the year.

Annual revenue totalled $1.3bn, a 26 per cent gain over the $1.0bn reached in 1987. Net income for the fiscal year was down, at $94.5m or 96 cents per share, compared with net income in fiscal 1987 of $105.2m or $1.07 per share.

"Although domestic business improved in the fourth quarter, we remain cautious about both the US economy and currency movement," said Mr James Treybig, president and chief executive. "Fiscal 1988 did not meet our expectations, but we made bold moves that position us well for the future. We believe our success in the fourth quarter provides good momentum as we begin the new fiscal year."

Amdahl, which sells IBM-compatible mainframe computers, reported net income of $53.3m, or 50 cents per share, for the third quarter, up significantly from $36.8m, or 35 cents per share, in the same period last year. Revenues increased to $464.7m from $362.7m a year ago.

Mr John Lewis, Amdahl's chairman and chief executive, said: "Demand strengthened as the third quarter progressed, and we expect that momentum to continue through year-end."

For the nine months ended September 30, Amdahl's net income was $150.4m or $1.40 per share, and revenues were $1.26bn. This compares with net income of $93m or 90 cents per share, and revenues of $1.02bn in the first nine months of 1987.

USX helped by energy push

By Robert Vincent in New York

USX, THE big US steel and energy group, pushed up third-quarter earnings to $228m from $140m last year after a strong performance by its major energy businesses.

The group, which also recorded a substantial profits increase in the first nine months, lifted third-quarter earnings from 46 cents to 80 cents. Revenue for the period advanced from $3.86bn to $4.15bn.

Marathon lifted third-quarter operating income from $125m to $188m, helped by better margins on refined products. However, Texas Oil and Gas reported an increased operating loss of $15m, against a $5m loss last time, primarily because of lower gas gathering margins.

The steel operations, after excluding a restructuring adjustment that boosted last year's figures, saw operating profits rise $11m in the quarter. The group said that the steel businesses were hit by higher raw material prices, a fire at one plant and start-up costs.

The diversified businesses increased operating income to $59m from $43m in the year-ago quarter.

In the first nine months the group's net income jumped to $598m or $2.07 from $233m or 67 cents on sales ahead from $10.6bn to $12.4bn.

Brazilian mine auction fails

By John Barham in Sao Paulo

BRAZIL'S privatisation programme has hit its first crisis. On Friday, five companies shortlisted to bid for a government-owned copper mine all announced they would not make bids at an auction to be held the same day.

The companies said the Government's National Economic and Social Development Bank (BNDES) had grossly overvalued its Companhia Brasileira do Cobre.

BNDES is the only government agency committed to privatisation. Press reports, quoting unnamed government officials, said the failed auction, the bank's second in succession, cast doubts on its privatisation programme.

It has sold seven companies for US$287m and plans to sell a further eight companies, including CBC, by the end of the year.

The BNDES said yesterday it was studying the possibility of holding a new auction.

Coopers and Lybrand, the auditors acting for BNDES, had set a minimum price of $9.8m for CBC. Its total assets, BNDES added, had a market value of $15.7m.

An executive at one of the shortlisted companies said CBC was worth no more than $4m. Another official claimed the company's mine in southern Brazil would be exhausted by 1991.

One BNDES official said the bank suspected the five companies of banding together to bring down the price of other government companies slated for auction.

He said it was "strange that the companies were selected on October 14, but only said they weren't interested on the day of the auction."

Correction

CGE

A HEADLINE in early editions of yesterday's Financial Times wrongly stated that Compagnie Générale d'Electricité had bought a 9.16 per cent stake in Société Générale, the French bank. As the story itself made clear, the stake was bought by a holding company owned by Mr Georges Pebereau, the former CGE chairman.

Goodyear earnings slide by 50%

By James Buchan in New York

GOODYEAR, the big US tyre company which is suffering a severe squeeze on profits in its home market, said yesterday that its earnings in the third quarter halved from its 1987 third-quarter result.

The world's largest tyre producer said its earnings from continuing operations in the September quarter were $63.5m or $1.11 a share as against $178.7m or $3.13 a share in the third quarter of last year. However, last year's figure included $58.9m from businesses since sold and special gains.

The decline in earnings, for which Wall Street was fully prepared, was caused by sharply higher raw material costs in the US tyre business, a less favourable sales mix and higher pension costs, according to Mr Robert Mercer, Goodyear's chairman.

However, foreign operations showed better earnings, though these were held back by exchange losses. Sales were up 7 per cent at $2.70bn.

At the nine-month stage, earnings were $293.7m or $5.13 a share, down sharply from the $603.9m or $9.78 a share of the first three quarters of 1987 – although this included $273.6m from discontinued operations and special gains. Sales rose 9.6 per cent to $8.00bn.

Problems in the US tyre business caused operating profits to fall 34.2 per cent in the quarter and 7.9 per cent for the nine months. Mr Mercer said that raw materials for tyres had gone up 14 per cent in price since the 1987 third quarter and Goodyear was not able fully to pass the price increase on to its customers.

In addition, Goodyear sold more original equipment tyres and fewer to the replacement tyre market, which is more profitable. Overall US tyre sales fell 4.9 per cent in the quarter.

In Goodyear's industrial, chemical and plastic sector, operating income rose 37.6 per cent in the third quarter and 45.3 per cent in the nine months.

Salomon rises sharply after pruning operations

By Robert Vincent in New York

SALOMON, which recently suffered another sudden exodus of top executives at its investment firm, yesterday reported a sharp increase in third-quarter earnings.

The group took net income for the quarter to $65m or 38 cents, against $27m or 18 cents last time, on revenue that declined from $1.58bn to $1.29bn.

Last October Salomon Brothers, the Wall Street investment bank, announced sharp cuts in its trading operations in an attempt to restore management's grip on the sprawling business.

Mr John Gutfreund, chairman and chief executive officer, said that expenses in the quarter were significantly below last year's level.

He added that it was "an accomplishment" for Salomon Brothers, given the amount of activity throughout the securities industry, to earn $86m before taxes in the three months. This was slightly ahead of the second quarter and well up on the $49m earned in the same quarter a year ago.

However, results in the commodities operations were mixed. Phibro Energy had its best quarter this year. It unveiled earnings of $45m, triple the amount for the 1987 period as it benefited from strong crude oil refining and trading.

Margins were improved by the fall in crude oil prices and the business also gained from the additional capacity and cost economies resulting from the acquisition of Texas City refinery.

However, Philipp Brothers suffered a loss of $15m in the quarter, against a profit of $5m last time. The group said the period was one of generally weaker commodity prices, but pointed out that over the nine-month period earnings were well ahead at $41m, against $10m.

The commercial finance operations advanced in the quarter, from $38m to $45m, helped by higher interest rates.

In the nine months period, the group as a whole registered a further advance, with earnings rising to $318m or $2.07 from $216m or $1.42 on revenues that slowed to $4.33bn, compared with $4.67bn.

Cummins Engine losses deepen

By James Buchan in New York

CUMMINS Engine, which is battling to maintain its dominance of the US truck diesel engine market, yesterday reported a sharp increase in losses in the third quarter as the company was caught off-balance by a surge in demand.

The Columbus, Indiana concern, which has prevented foreign companies from making inroads into the heavy-duty truck market but at the price of wild swings into deficit, said it lost $17.6m in the third quarter against $6.3m in the 1987 summer quarter.

The loss occurred against a background of booming truck sales, with Cummins' revenues up 21 per cent.

However, the company, which is in the throes of a consolidation of its manufacturing operations, found itself unable to meet the demand without overtime and big demands on working capital.

Cummins also said that price-discounting and higher raw material and product launch costs hurt earnings.

For the nine months, Cummins' net loss was $8.4m against a profit of $18.3m. Sales surged by 21 per cent to $2.44bn and Cummins said engine orders continued to be strong.

The company forecast that heavy-duty truck sales would be up 8 per cent in 1988. Cummins' share so far this year has been 54 per cent.

Kraft looking for $110 a share

By Anatole Kaletsky in New York

KRAFT, THE big US food company which has rejected a $90-a-share takeover bid from Philip Morris, yesterday said that it would negotiate with Morris or any other potential acquirer willing to buy it for $110 a share or more.

Mr John Richman, Kraft's chairman, who unveiled a $110-a-share leveraged recapitalisation on Monday in an initial defence against Morris, said Kraft wished to remain independent, but would be bound to listen to any higher offers.

"If Philip Morris, or another company, truly wishes to negotiate with Kraft, a simple phone call proposing a price of more than $110 a share is all that is necessary," Mr Richman said in a letter addressed to Mr Hamish Maxwell, the Philip Morris chairman, and made public yesterday.

When he announced his defence against Philip Morris on Monday, Mr Richman had strongly implied that he was reluctant to saddle his company with the $10bn of additional debt required by the recapitalisation plan.

However, yesterday's letter was intended not merely to put pressure on Philip Morris to raise its offer. It was also aimed at rebutting Morris's claim, made in a lawsuit over the weekend, that Kraft's directors were breaching their fiduciary duties by refusing to negotiate on the initial $90-a-share offer.

On Monday Mr Richman had expressed "deep regret" at the "hardships and dislocations" that the company's own recapitalisation plans would cause.

Grupo Visa to restructure debt

By Richard Johns in Monterrey

A MAJOR debt restructuring at Grupo Visa will wipe about $1.3bn of foreign liabilities off its books and reduce Mexico's external borrowings by up to $1.1bn, or about one-tenth.

Net reductions of the country's outstanding obligations resulting from a complex operation engineered by the International Finance Corporation private investment affiliate of the World Bank, will be the equivalent of the relief obtained early this year from the exchange of commercial bank debt for zero-coupon bonds guaranteed by the US. In addition there will be considerable savings in interest payments.

The multi-faceted deal is second only in size to the debt restructuring in the late spring of the Grupo Industrial Alfa, a conglomerate closely related through cross shareholding of the Garza Laguera family, which slashed its foreign borrowings by $1.5bn at the time.

As a result of the Visa restructuring the Garza Laguera stake in the group will be reduced by 55 per cent. With about 5 per cent of the equity in the hands of other Mexican shareholders, creditors and new investors will own about 40 per cent of the conglomerate.

Reorganisation involves the consolidation of brewing interests in one company and the sale of Visa's tourism and motor components division. Among the new investors are the IFC, which has taken a $20m shareholding, and Citicorp Investment Bank, which provided a large debt cash equity swap. Over $60m has been raised in new cash equity conscriptions.

The programme will cut Visa's debt by about $1.3bn to approximately $400m through debt buy-outs, debt-for-debt swaps (including the exchange of sovereign debt), debt-to-equity-swap and asset divestitures.

Mr Peter Jones, head of the IFC's corporate finance unit, said that the restructuring had essentially been made possible by companies' ability to capture the benefit of the discount at which its debt had been traded.

As part of the restructuring the group has incurred a new long-term financing of $170m, including a $80m loan from IFC and $55m from the State Development Bank Nafinsa. An outstanding debt of rather less than $600m will be repaid over 10 years following the restructuring.

In rationalising operations Visa has sold its tourism assets, the Hyatt Regency Hotels, to the Grupo San Luis conglomerate and its majority share in its motor components joint venture with Ford to the US company (which, because the enterprise is classed as an in-bond industry, can have 100 per cent ownership).

Visa is consolidating its brewing industry by merging Formento Economico Mexicana, hitherto the largest operating subsidiary of the holding company, and Grupo Cermoc into a single company that will be quoted separately on the Bolsa De Valores Mexicanos. Together Visa says they have a little more than half of the national beer market and export about 4 per cent of output to the US.

Following the rationalisation, brewing will account for 60 per cent of operations, packaging 30 per cent, soft drinks 10 per cent and food manufacture 10 per cent.

A senior executive put the group's assets at about the equivalent of $1.4bn. Recently its shares have been quoted as about half net book value, he said.

Bank of America, which chairs the creditors' steering committee and its working group, reckons that the value of the brewing subsidiary wil be $600 to $700m.

Banks owning Visa's debt have the option of becoming shareholders or cashing in their paper. In the secondary market, its discount propped to a low point of 30 cents. Bank of America thinks that after the restructuring it will trade at 44 to 45 per cent, only a little below the Mexican sovereign debt, and that banks remaining as investors should be able to recover their money, at a conservative estimate, within three years because of the new profitability in prospect.

Valores Industriales, the Visa holding company, last paid a dividend in 1982 but only vaulted on the payments in November 1986. Acquisition of the Grupo Cermoc and its Moctezuma Breweries in 1985 were important factors bringing to a head the group's mounting problems.

NORTH AMERICAN QUARTERLY RESULTS

COLGATE-PALMOLIVE
Soaps

	1988 $	1987 $
Third quarter		
Revenues	1.19bn	1.14bn
Net income	60.2m	96.9m
Net per share	0.88	1.42
Nine months		
Revenues	3.52bn	3.22bn
Net income	191.1m	15.6m
Net per share	2.79	0.22

LOUISIANA LAND
Oil, crude producers

	1988 $	1987 $
Third quarter		
Revenues	181.5m	211.3m
Net income	-55m	5.8m
Net per share	-1.79	0.19
Nine months		
Revenues	574.2m	603.5m
Net income	-34.3m	17.8m
Net per share	-1.11	0.57

ROYAL TRUSTCO
Bank

	1988 $	1987 $
Third quarter		
Revenues	710m	574m
Net income	55m	49m
Net per share	0.39	0.32
Nine months		
Revenues	2.02bn	1.65bn
Net income	164m	143m
Net per share	1.17	1.00

TIMES MIRROR
Publishing, newspapers

	1988 $	1987 $
Third quarter		
Revenues	814.8m	777.5m
Net income	81m	70.6m
Net per share	0.62	0.55
Nine months		
Revenues	2.41bn	2.28bn
Net income	235.1m	211.8m
Net per share	1.82	1.64

CONTEL
Telephones

	1988 $	1987 $
Third quarter		
Revenues	767.9m	713m
Net income	62.4m	34.4m
Net per share	0.79	0.44
Nine months		
Revenues	2.24bn	2.06bn
Net income	225.8m	136.8m
Net per share	2.86	1.76

MCA
Entertainment and leisure

	1988 $	1987 $
Third quarter		
Revenues	806.7m	770.6m
Net income	54.3m	47.3m
Net per share	0.74	0.62
Nine months		
Revenues	2.06bn	1.92bn
Net income	89.2m	115.4m
Net per share	1.22	1.52

RYDER SYSTEM
Consumer goods, services

	1988 $	1987 $
Third quarter		
Revenues	1.27bn	1.16bn
Net income	55.9m	52.7m
Net per share	0.68	0.65
Nine months		
Revenues	3.72bn	3.39bn
Op net income	86.7m	141.4m
Op net p/shr	1.03	1.73

WARNER COMMUNICATIONS
Entertainment and leisure

	1988 $	1987 $
Third quarter		
Revenues	1.03bn	824.1m
Net income	105.3m	66.2m
Net per share	0.66	0.41
Nine months		
Revenues	3.01bn	2.38bn
Net income	322.1m	236.1m
Net per share	2.02	1.50

HOMESTAKE MINING
Metal ore mining

	1988 $	1987 $
Third quarter		
Revenues	103.6m	87.1m
Net income	11.2m	10.2m
Net per share	0.12	0.11
Nine months		
Revenues	306.9m	266.6m
Net income	50.6m	34.4m
Net per share	0.52	0.36

McDONALD'S
Restaurants

	1988 $	1987 $
Third quarter		
Revenues	1.46bn	1.31bn
Net income	191.3m	163.8m
Net per share	1.02	0.86
Nine months		
Revenues	4.12bn	3.63bn
Net income	494.4m	466.9m
Net per share	2.62	2.45

SANTA FE SOUTHERN
Transport

	1988 $	1987 $
Third quarter		
Revenues	756m	718.9m
Op net income	-2.4m	74.5m
Op net p/shr	-0.02	0.47
Nine months		
Revenues	2.26bn	2.03bn
Op net income	24m	158.9m
Op net p/shr	0.15	1.00

WEYERHAEUSER
Forestry products

	1988 $	1987 $
Third quarter		
Revenues	[illegible]	[illegible]
Net income	144.8m	126.1m
Net per share	0.70	0.59
Nine months		
Revenues	5.91bn	5.21bn
Net income	409.6m	317.2m
Net per share	1.95	1.51

KNIGHT-RIDDER
Publishing, newspapers

	1988 $	1987 $
Third quarter		
Revenues	503.1m	475.6m
Net income	32m	33.4m
Net per share	0.57	0.57
Nine months		
Revenues	1.5bn	1.4bn
Net income	104.8m	100.6m
Net per share	1.83	1.71

PACCAR
Auto trucks and parts

	1988 $	1987 $
Third quarter		
Revenues	803.5m	636m
Net income	46m	29.6m
Net per share	1.28	0.83
Nine months		
Revenues	2.27bn	1.75bn
Net income	129.4m	77m
Net per share	3.61	2.15

SOUTHWESTERN BELL
Telephones

	1988 $	1987 $
Third quarter		
Revenues	2.23bn	2.09bn
Net income	323.3m	314.1m
Net per share	1.08	1.04
Nine months		
Revenues	6.27bn	5.85bn
Net income	754.9m	800.6m
Net per share	2.51	2.66

ZENITH ELECTRONICS
Electronics

	1988 $	1978 $
Third quarter		
Revenues	681.6m	591.8m
Net income	3.0m	-25.1m
Net per share	0.11	-0.99
Nine months		
Revenues	1.85bn	1.68bn
Net income	-8.7m	-23.8m
Net per share	-0.34	-0.99

INTERNATIONAL CAPITAL MARKETS

Investors focus on quality issues

By Dominique Jackson

THE FIRST ripples from the turmoil occasioned in the US corporate bond market by RJR Nabisco's proposed huge leveraged buy-out reached the Eurobond market yesterday. Yield margins over Treasury paper on several outstanding Euro-issues from investment grade US industrial borrowers continued to widen as many investors switched out of the paper, both into highergrade corporates with little comparable event risk and directly into the US Treasury market.

Liquidity in the US corporate sector of the Eurobond market has been less than satisfactory for some time, yet yesterday's markdowns appeared to be more a result of dealer action than of large-scale investor selling. However, traders added that the worries about US corporate borrowers had already begun to affect perceptions of their UK counterparts' paper. The latest disarray in the corporate bond sector, sparked by both the RJR Nabisco developments and the approach to Kraft by Philip Morris, has now effectively closed the market for this type of borrower and clearly refocussed investors' attention back on to credit quality.

Consequently, the most recent crop of issues in the Eurodollar sector has been largely unaffected by these worries. The top quality guarantees on both of yesterday's two new deals and Monday's 10-year issue for Japan's NT&T served to enhance their lure to investors, who have taken fright at the possibility that other huge industrial companies could become buy-out targets.

Banque Paribas Capital Markets was partially compensated for Monday's disappointment at losing the NT&T mandate – which has traditionally gone to BPCM or JP Morgan – to Merrill Lynch, by the success of yesterday's issue for Qantas. The 10-year deal tapped into a particularly strong pocket of demand not entirely sated by the NT&T issue. The name of the borrower was a strong attraction for retail investors while the Commonwealth of Australia guarantee was tempting enough to bring several institutions into the deal.

The unusual $180.6m issue total was directly linked to the borrower's needs to finance aircraft purchases and the issue itself was linked to a fairly complex swap package. The initial spread at launch was pitched at 54 basis points, a margin deemed fairly generous and one which soon narrowed. The deal saw demand from a geographically wide investor base at a level so high that it surprised many dealers and the issue finished the day well bid within total fees.

INTERNATIONAL BONDS

Banque Française de Commerce Exterieur also tapped the Eurodollar straight market with a $150 seven-year issue which, despite the recent heavy volume of new paper at that maturity, also saw strong demand, partly due to the generous pricing of the issue which came at an initial 49 basis points over comparable Treasury issues. LTCB International was the lead manager on the deal via which BFCE managed to achieve a highly attractive cost of funds via the swap arrangement.

Both yesterday's issues in the dollar straight sector prompted some two-way swap related activity at the respective maturities in the underlying US Treasury market. BFCE saw brisk demand, aided by the Republic of France guarantee on the deal, initially rising to a level as high as less 1.60 bid, later settling down to a discount of around 1.70, still within total fees.

UBS Securities led a Ecu150m deal for a financing unit of its parent, Union Bank of Switzerland, which provided the triple-A rated guarantee on the issue. Despite the fairly heavy flow of new issuance in the sector of late, the deal was perfectly targeted to mop up Swiss-based interest in the composite currency which continues to be strong. Although last week's Ecu750m of new paper has certainly slowed uptake, demand continues to be steady, fuelled partly by new money coming into the Ecu sector and partly by continued switching into the sector from the Deutschemark-denominated and guilder bond markets.

The European Investment Bank tapped the Euromark sector as anticipated with an unusually large DM700m 10-year deal which carried a 5⅞ per cent coupon, via Deutsche Bank. The issue attracted a fair amount of attention as it is the first supranational deal in the sector since the middle of last month. Although little switching from seasoned issues was detected, dealers noted brisk activity in the new bond, which was trading bid at a discount of 1.55, well within total fees.

In Switzerland, yesterday's three new equity-linked issues, the first for some time, attracted a fair amount of attention and were consequently trading at levels not seen for a while in the sector.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Union Bank of Finland♦	100	9½	101⅛	1990	1⅛/⅝	Nikko Secs. (Europe)
Tobu Store†	100	(5)	100	1992	2¼/1½	Yamaichi Int. (Eur)
BFCE♦	150	9¼	101¼	1995	1⅞/1¼	LTCB Int.
Qantas Airways♦	180.6	9½	101⅞	1998	2/1⅝	Banque Paribas
Final terms fixed on:						
Tokyo Electron Ltd.(a)†♦	150	5	100	1992	2¼/1½	Nomura Int.
Japan Storage B'tery(a)†♦	50	5⅞	100	1993	2¼/1½	Nikko Secs. (Europe)
SMK Corp.(a)♦	80	5⅞	100	1992	2¼/1½	Wako Int. Europe
CANADIAN DOLLARS						
Norddeutsche LB♦	75	10⅛	101⅞	1992	1⅝/1⅛	NordLB
D-MARKS						
EIB♦	700	5⅞	100¼	1998	1¾/1⅛	Deutsche Bank
SWISS FRANCS						
Ikegami Tsushinki Co.★‡	100	(½)	100	1994	n/a	Hesvetia Bk. (Swiss)
Kawasaki Kasei Chem.★‡	30	(½)	100	1994	n/a	SBC
Toyo Chemical Co.★‡	25	(½)	100	1993	n/a	Bqe. Paribas (Suisse)
Final terms fixed on:						
Bond Int. Gold Inc.(a/b)♦	100	4	100	1995	n/a	TDB Amex Bank
ECUs						
UBS Finance♦	150	7½	101⅞	1993	1⅞/1¼	UBS Secs.

★Private placement. ‡With equity warrants. §Convertible. ♦Final terms. a)Coupon fixed as indicated. b) Convertible into gold cash equivalent of gold price.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on October 25

US DOLLAR STRAIGHTS | YEN STRAIGHTS | OTHER STRAIGHTS | DEUTSCHE MARK STRAIGHTS | FLOATING RATE NOTES | CONVERTIBLE BONDS | SWISS FRANC STRAIGHTS

Issued	Bid	Offer	Change on day	Change on week	Yield	
[illegible]						

Average price change... On day +0 on week +0

* No information available–previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Dai-Ichi Kangyo in Dean Witter link

By Stefan Wagstyl in Tokyo

DAI-ICHI KANGYO Bank, Japan's largest commercial bank, has signed an agreement with Dean Witter Reynolds, the US investment bank, to co-operate in broking financial futures.

The pact is the first of its kind for DKB, which has seen other Japanese banks, including Sumitomo Bank and the Industrial Bank of Japan, establish close international ties with US investment banks. Unlike some rivals, DKB is not buying a stake in its US partner.

Under the agreement, DKB, which has no overseas futures broking office, will forward Japanese investors' orders for overseas futures to Dean Witter in the US. Dean Witter, which has no Japanese office, will pass orders from outside Japan to DKB for execution on the soon-to-be-opened Japanese financial exchanges.

DKB has sent three employees to Dean Witter for training, a common tactic among Japanese financial firms seeking to improve their knowledge of high-tech financial instruments, such as futures and options.

Swedish bank sells UK stake to managers

By Robert Taylor in Stockholm

GYLLENHAMMAR and Partners, Sweden's only independent investment bank, is to sell half its London-based international company to its own management in a move designed to "help to keep the managers we already have and attract others."

Although formed only four years ago, GP has acquired a high profile reputation in the Nordic area as a full-service banking company outside the traditional banking blocs, specialising in finance in potentially high risk sectors like shipping and the offshore industry.

For the first seven months of this year profits after financial items amounted to SKr43.73m ($7.06m) while assets totalled SKr1.87bn.

GP launched a pan-Nordic strategy in 1986 with the acquisition of a minority stake in Rovira, Finland and Thomsen, the Norwegian investment banking concern.

INTERNATIONAL CAPITAL MARKETS

French rates hold level after Bundesbank move

By Stephen Fidler in London and Janet Bush in New York

THE GOVERNMENT bond markets in both France and West Germany improved after the Bundesbank announced that it would inject funds into the banking system today.

This took pressure off the Bank of France to raise short-term interest rates to defend the value of the franc in the European Monetary System. Indeed, there was no rise in rates at yesterday's French repurchase operation, when some had expected, and dealers inferred co-ordination between the central banks of the two countries.

For the first time, the Bundesbank announced a new 28-day repurchase agreement exclusively at a variable rate. This would replace DM12bn draining from the banking system today. On the few occasions they have been carried out before, variable rate agreements – where banks are awarded the agreements at the price at which they tender as in the US – have been in tandem with the more traditional fixed-rate repurchase agreements. Variable rate agreements give the central bank improved flexibility in adding liquidity.

The Bundesbank also raised the rediscount quota – the amount banks can borrow from the discount window – by DM5bn.

The West German market ended 5 to 10 pfennigs higher. In France, most of the activity was concentrated at the short end of the market, led in fairly quiet trading by the increasingly influential over-the-counter options market.

US TREASURY bonds traded mixed at midsession yesterday as traders put everything on hold in advance of today's release of third quarter gross national product data.

Prices were unchanged to ⅛ point higher at the short end of the yield curve while the long end weakened by as much as ¼ point. The long bond again underperformed the rest of the market in the wake of legislation giving the Treasury the authority to sell a 30-year issue at next month's quarterly refunding. The long bond was quoted ¼ point lower to yield 8.94 per cent.

The consensus of forecasts for today's GNP is for annualised growth in the third quarter of 3.2 per cent coupled with a 4.4 per cent rise in the series' price deflator.

Bonds were given a mild boost by news that durable goods orders fell by a larger than expected 4.1 per cent. However, analysts noted that the month's figures were dominated by defence and transportation orders and concluded that orders, while weak, were not as soft as the headline figure suggested. They predicted a substantial bounce back in orders in October's data.

The dollar's improved performance this week has been one factor giving some support to bond prices, soft crude oil prices another. Some analysts were somewhat disappointed in the performance of bonds yesterday given the coincidence of these various helpful factors.

The report late on Monday on currency policy by Mr Nicholas Brady, the new US Treasury Secretary, gave the dollar a small boost because of his remark that the US currency's current level would not deter further improvement in the trade balance. However, dealers were a little concerned about the overall vagueness of the report.

GOVERNMENT BONDS

THE Japanese government bond market continued to strengthen, aided by Bank of Japan action in the money market. Yesterday, in a move which surprised some, the central bank added liquidity by buying Y400bn in three month bills at a rate of 4¼ per cent.

The yield on the benchmark No105 bond dropped by 5 basis points to 4.82 per cent at the London close yesterday, although the move effectively came in Tokyo time. Despite scepticism about the possibility of a change, speculation continued about a possible switch of the benchmark. One prime candidate, the No 111, has fallen 20 basis points in yield over the last week, compared with 10 basis points for the No 105. However, yesterday's rally was fairly nbarrowly based.

The Ministry of Finance said its November sale of 10-year bonds will raise Y500bn, in line with expectations.

UK GOVERNMENT bond prices hardly moved in quiet trading with the market awaiting tomorrow's release of UK trade and current account statistics for September, where forecasts appear to centre of a deficit of £1.3bn for the current account. The relative firmness of sterling provided some market underpinning, further bolstered late in the day by Mr Nigel Lawson's remarks to Parliament.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	110-21	-1/32	10.12	9.97	10.40
		8.750	9/97	94-22	-	9.65	9.59	10.01
		9.000	10/08	99-19	-1/32	9.05	8.94	9.33
US TREASURY*		9.250	8/98	102-24	+2/32	8.82	8.77	9.00
		9.125	5/18	101-28	-1/32	8.94	8.85	9.09
JAPAN	No 105	5.000	12/97	102.4461	+0.426	4.82	4.78	5.09
	No 2	5.700	3/07	107.0178	+0.511	4.97	5.05	5.31
GERMANY		6.500	5/98	100.9750	+0.100	6.38	6.43	6.60
FRANCE	BTAN	9.000	7/93	101.5285	+0.056	8.56	8.55	8.57
	OAT	8.500	6/97	98.0250	+0.475	8.65	8.72	8.80
CANADA*		9.500	10/98	98.1250	-0.375	9.80	9.70	10.02
NETHERLANDS		6.500	7/98	101.9250	-0.050	6.25	6.27	6.50
AUSTRALIA		12.500	1/98	102.9444	-1.182	11.95	11.90	11.81

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Consortium bank buys 50% of Chase unit

By Stephen Fidler

SCANDINAVIAN Bank, the London-based consortium bank, has acquired 50 per cent of the shares of a Brazilian investment bank from Chase Manhattan, the New York based bank.

The other other half of the equity of the bank, which will be named Banco de Investimento Sul Américo Scandinavian, will be held by the Grupo Sul América, Brazil's largest independent insurance group.

The bank was used by Chase for fund management, which it will continue to operate. The bank, with some $14m in assets, is effectively starting as a new operation.

The equity stake was bought after a debt-to-equity swap transaction in which Scandinavian converted some of its own loans to Brazil, at close to face value, into cruzados.

A Scandinavian official said that apart from the new unit's expected profitability, it believed the Brazilian bank would help its both Scandinavian business and its asset trading team.

SEC plan may cut cost of capital raising

By Our Financial Staff

THE Securities & Exchange Commission has proposed a regulation that ultimately would cut the costs of raising capital in the US. If adopted, the new rule would exempt specified resales of securities to institutional investors from existing registration requirements under federal securities laws.

Currently, public resale of restricted securities may take place only when certain conditions are met, including a requirement that the securities be held for at least two or three years. The US market for these private placements has jumped from $18bn in 1971 to $135bn in 1987.

Most issuers of securities resold in the US secondary private placement market are domestic companies.

Australian bonds burst into life

Chris Sherwell on the upsurge in demand for corporate paper

Like a dragster powering ahead from a standing start, Australia's dormant corporate bond market has burst into life, providing some of the country's biggest business names with a fresh source of funds.

Back in January, such an opportunity was barely perceptible. Yet in a few months some A$2.7bn (US$2.21bn) of fixed-rate medium-term corporate paper has been issued, and the figure is expected to rise to A$3.5bn by the end of the year. The projection for the end of 1989 is A$7bn.

Even by Australian standards, however, this is small. The highly evolved market for federal government paper, for example, is about A$38bn, while the semi-government market – the debt of utilities guaranteed by Australia's state governments – has outstandings of A$44bn.

Pricing of the new issues is done in relation to the semi-government New South Wales Treasury Corporation benchmark stock, with most issues priced 35-60 basis points above. Maturities are mostly in the three-year to five-year range, with only one 10-year issue so far.

Future growth of the new market depends in the first instance on the number of quality names prepared to tap it. The list so far is dominated by the banks, like ANZ, National Australia Bank, Citibank and Barclays. They, perhaps predictably, saw the opportunities before their clients. Corporate issuers include Shell, Ford and Pioneer Concrete.

Of greater importance is investor attitudes – and in particular the development of a functioning secondary market with enough liquidity to ensure that the paper remains marketable over its lifetime.

The big names involved in marketing and dealing in the paper are Dominguez Barry Samuel Montagu, Bain & Co and First Boston Australia, all of which have long been active in the semi-government market. Among the others, Chase AMP is the most prominent.

With hindsight the fact that this market has suddenly bloomed, where previously it looked dead, is no big surprise. The participants offer a combination of reasons, of which by far the most important is government economic and banking policy.

Thanks to swollen tax revenues and severely constrained increases in government spending, Australia's public sector borrowing requirement has declined from an uncomfortable 8.1 per cent of gross domestic product five years ago to virtually zero in the current year, drastically reducing the Government's presence in the domestic capital markets.

At the same time, an increasing pool of institutional funds has been searching for fixed-interest investments. Before the worldwide share market crash of October 1987, Australian investment managers were seriously underweight in this part of their portfolios as they sought to reap the rewards of the continuing bull run in equities.

Latterly they have been rebalancing their portfolios. According to Dominguez Barry, institutional demand for fixed-income paper cannot be met by government paper. Institutions, it reckons, have the capacity to allocate a further A$5bn to the corporate bond market, making the total pool of funds A$7bn.

A double change in banking policy has proved an equally important driving force behind the emergence of the corporate bond market. One is an alteration in capital adequacy rules for Australian banks modelled on the findings of the Bank of International Settlements in Basle.

By attaching risk-weightings to all forms of bank assets, the changes have put greater distance between banks and corporate borrowers, making previously attractive, off-balance sheet forms of finance more costly. This has encouraged borrowers to seek funds from institutional investors directly.

Because the changes also allow banks themselves to include new forms of paper – in particular term subordinated debt – as part of their capital base, the market has received another boost. National Australia Bank was the first to take advantage of the changes with a A$300m issue of 10-year bonds earlier this month.

A second helpful banking policy shift is the phasing out of the statutory reserve deposits (SRD) system. This will free banks of the obligation to maintain 7 per cent of their Australian dollar deposits with the Reserve Bank at only 5 per cent interest.

That in turn encourages them to raise medium-term funds domestically rather than offshore, through fixed-rate certificates of deposit. Both the ANZ Banking group, with A$500m in transferable certificates of deposit issued last month, and Barclays with A$75m in August, did just this.

One other relevant factor in the growth of Australia's corporate bond market is the indigestion which has become apparent abroad in the Euro-Australian dollar sector, where some A$20bn to A$22bn is now outstanding after four years of expansion following the deregulation of Australia's financial sector.

At some stage the corporate bond market will itself start reaching capacity constraints if it continues its recent rapid growth. But right now, issuers are well placed because the investment dollars are available and the investment environment is propitious.

The limit will eventually be set by the investment institutions. Currently they want only high quality paper, which so far means a rating of no less than AA minus. Not for Australia, yet, the junk bond market.

They also demand assurances that it will be negotiable. For the dealers that means finely-pitched bid-offer spreads of five basis points – the same as semi-government paper, and a narrower margin than the 8-10 point spreads seen in the North American corporate bond market.

Still, Australia's hard-pressed and highly competitive merchant banks are not complaining. For them, any new line of business is welcome. And with any luck this one might continue to have some dragster-style steam in it.

Japanese purchases down

JAPANESE investors bought a net $3.78bn in foreign bonds in September, down from $9.82bn in August, according to the Japan Securities Dealers Association (JSDA).

Gross purchases were $72.84bn, against $95.87bn in August, while gross sales were $69.06bn, down from $86.04bn.

The JSDA data include government paper with maturities of one year or more and bonds issued by private firms, semi-government agencies and institutions. The figures exclude bills.

Japan's outstanding bond holdings in September totalled $142.6bn against $134.07bn in August. Gross purchases of US bonds in September fell to $64.04bn, or 87.09 per cent of the total, against $87.77bn, or 91.6 per cent, in August. Gross sales of US bonds stood at $63.15bn, or 91.4 per cent of the total, against $81.42bn or 94.6 per cent in August.

The sharp drop in gross purchases and sales was due mainly to a fall-off in dealing by dealers and brokerages, dealers said.

MoF in securities talks

JAPAN'S Ministry of Finance (MoF) and Britain's Securities and Investments Board (SIB) are discussing ways to strengthen co-operation in supervising securities investment activities by Japanese banks in London, Reuter reports.

The MoF and the SIB are expected to work together to monitor Japanese banks' activities to secure sound banking principles. The MoF declined to comment on the type of co-operation, but said it will include information exchange.

Under Britain's Financial Services Act, any financial institution that conducts securities business in the UK is subject to SIB supervision.

But it is not clear whether the London branches of foreign banks should be fully supervised by the SIB or authorities of their home country. The MoF and the SIB are discussing this matter and are expected to agree on certain arrangements in the near future.

The SIB has already made similar agreements with the US and Swiss authorities.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

		Tuesday October 25 1988: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Mon Oct 24 Index No.	Fri Oct 21 Index No.	Thu Oct 20 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (210)	821.25	+0.2	10.54	4.09	11.73	22.65	819.33	823.00	821.51	704.94
2	Building Materials (28)	1040.31	+0.6	11.70	4.23	10.55	27.52	1034.54	1035.25	1033.13	897.35
3	Contracting, Construction (38)	1612.09	-0.7	11.53	3.66	11.30	40.49	1622.75	1627.36	1623.49	1382.83
4	Electricals (12)	2345.86	+0.5	8.95	4.63	13.63	64.48	2335.81	2343.57	2341.92	1983.14
5	Electronics (29)	1771.84	+0.9	10.04	3.54	12.82	42.81	1756.20	1772.38	1772.46	1553.25
6	Mechanical Engineering (57)	430.07	+0.1	10.14	4.16	12.09	12.27	429.71	432.07	430.33	370.97
8	Metals and Metal Forming (7)	491.71	-1.2	9.89	3.99	12.50	10.06	497.59	500.17	499.11	383.88
9	Motors (16)	288.45	+0.5	11.67	4.67	9.92	8.12	287.12	288.60	286.88	259.73
10	Other Industrial Materials (23)	1366.46	-0.1	9.70	4.47	12.18	43.06	1367.86	1371.41	1371.95	1287.81
21	CONSUMER GROUP (186)	1092.49	-0.1	9.19	3.66	13.70	21.30	1093.15	1098.42	1099.38	1087.75
22	Brewers and Distillers (21)	1153.37	-0.7	10.29	3.58	12.26	23.00	1160.92	1160.10	1157.80	934.19
25	Food Manufacturing (21)	984.71	+0.2	8.96	3.84	14.11	19.54	983.83	983.42	982.85	785.50
26	Food Retailing (16)	1914.02	-0.2	9.21	3.52	14.34	42.23	1917.64	1928.79	1926.46	2069.12
27	Health and Household (12)	1929.36	----	6.73	2.55	17.17	38.07	1930.02	1943.45	1945.75	1712.45
29	Leisure (30)	1397.70	-0.3	8.76	3.68	14.64	30.27	1401.29	1411.19	1409.19	1067.52
31	Packaging & Paper (17)	558.58	-0.3	9.99	3.89	12.75	13.94	560.01	563.41	564.31	505.08
32	Publishing & Printing (19)	3470.10	+0.2	8.28	4.09	15.07	81.40	3464.61	3482.57	3494.49	3372.08
34	Stores (34)	769.08	+0.4	10.86	4.34	12.11	17.70	766.13	773.90	778.70	859.49
35	Textiles (16)	524.62	----	13.23	5.29	8.87	13.82	524.38	526.72	525.71	622.58
40	OTHER GROUPS (92)	916.99	+0.2	11.01	4.39	11.08	22.92	915.42	916.90	915.73	827.47
41	Agencies (19)	1090.71	----	8.02	2.55	15.73	19.25	1091.14	1088.28	1083.66	1015.04
42	Chemicals (22)	1075.77	-0.1	11.87	4.74	10.12	37.50	1077.15	1075.63	1072.34	1016.87
43	Conglomerates (12)	1253.38	+0.1	10.47	4.53	10.92	25.00	1251.51	1256.50	1255.24	1063.47
45	Shipping and Transport (12)	1947.87	-0.1	11.62	4.76	11.26	50.57	1949.44	1961.13	1964.63	1752.93
47	Telephone Networks (2)	981.21	+0.5	11.31	4.54	11.47	20.38	975.97	980.71	980.21	868.82
48	Miscellaneous (25)	1260.48	+0.2	11.20	4.32	10.16	37.24	1257.89	1254.24	1252.86	1176.33
49	INDUSTRIAL GROUP (488)	988.16	+0.1	10.05	3.97	12.35	22.76	987.35	991.17	990.75	889.66
51	Oil & Gas (12)	1731.01	+0.5	10.00	6.43	11.77	76.79	1723.04	1737.72	1749.27	1682.53
59	500 SHARE INDEX (500)	1051.59	+0.1	10.16	4.30	12.27	27.28	1050.20	1054.91	1055.46	956.93
61	FINANCIAL GROUP (123)	696.20	-0.5	-	5.14	-	23.97	699.92	706.18	708.49	635.33
62	Banks (8)	677.15	-2.0	20.73	6.54	6.47	31.13	690.63	697.83	701.86	634.78
65	Insurance (Life) (8)	990.47	-0.3	-	5.36	-	39.81	993.62	1003.83	1010.19	985.72
66	Insurance (Composite) (7)	533.56	----	-	5.85	-	22.33	533.27	537.16	541.39	494.74
67	Insurance (Brokers) (7)	971.43	+0.5	9.10	6.65	13.67	45.06	966.75	975.13	971.91	915.86
68	Merchant Banks (11)	348.25	+1.8	-	4.22	-	9.20	342.24	343.35	341.08	391.73
69	Property (51)	1230.50	+0.1	5.49	2.69	23.25	17.65	1229.64	1242.83	1242.38	946.96
70	Other Financial (31)	373.59	+0.2	10.27	5.35	12.24	11.66	372.96	374.27	373.43	411.59
71	Investment Trusts (77)	935.88	-0.1	-	3.11	-	15.97	936.99	938.16	935.90	879.89
81	Mining Finance (2)	550.86	-4.3	11.11	3.80	10.83	15.67	575.83	581.98	585.72	382.82
91	Overseas Traders (8)	1327.08	-1.2	9.40	4.62	12.34	40.44	1342.84	1353.84	1372.10	883.55
99	ALL-SHARE INDEX (710)	962.29	-0.1	-	4.39	-	26.02	962.96	968.02	969.09	871.55

	Index No.	Day's Change	Day's High	Day's Low	Oct 24	Oct 21	Oct 20	Oct 19	Oct 18	Year ago
FT-SE 100 SHARE INDEX ♦	1847.8	-0.6	1849.6	1840.0	1848.4	1859.3	1864.3	1862.5	1857.8	1703.3

FIXED INTEREST

	PRICE INDICES	Tue Oct 25	Day's change %	Mon Oct 24	xd adj. today	xd adj. 1988 to date
	British Government					
1	5 years	119.72	+0.03	119.69	-	9.71
2	5-15 years	137.12	+0.02	137.09	-	11.52
3	Over 15 years	148.35	+0.09	148.21	-	12.64
4	Irredeemables	168.57	-0.26	173.56	4.54	13.38
5	All stocks	134.17	+0.03	134.17	0.03	11.13
	Index-Linked					
6	5 years	130.36	+0.05	130.29	-	1.81
7	Over 5 years	126.84	+0.01	126.83	-	2.96
8	All stocks	126.93	+0.01	126.91	-	2.85
9	Debentures & Loans	118.29	-0.01	118.30	-	9.40
10	Preference	90.43	+1.91	88.74	-	5.08

	AVERAGE GROSS REDEMPTION YIELDS		Tue Oct 25	Mon Oct 24	Year ago (approx.)
	British Government				
1	Low	5 years	9.66	9.65	8.98
2	Coupons	15 years	9.24	9.24	9.32
3		25 years	8.94	8.94	9.14
4	Medium	5 years	10.05	10.05	9.58
5	Coupons	15 years	9.47	9.47	9.55
6		25 years	9.17	9.17	9.30
7	High	5 years	10.17	10.18	9.65
8	Coupons	15 years	9.60	9.59	9.74
9		25 years	9.23	9.23	9.36
10	Irredeemables†		8.90	8.88	9.15
	Index-Linked				
11	Inflation rate 5%	5yrs.	2.80	2.82	3.48
12	Inflation rate 5%	Over 5 yrs.	3.64	3.64	4.31
13	Inflation rate 10%	5 yrs.	1.64	1.65	3.62
14	Inflation rate 10%	Over 5 yrs.	3.47	3.47	4.34
15	Debs &	5 years	11.75	11.75	11.23
16	Loans	15 years	11.01	11.01	10.97
17		25 years	10.68	10.68	10.97
18	Preference†		9.97	10.16	11.00

♦Opening index 1847.5; 10 am 1843.1; 11 am 1846.4; Noon 1848.2; 1 pm 1847.1; 2 pm 1848.4; 3 pm 1846.4; 3.30 pm 1846.7; 4 pm 1846.5
† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 34p.
CONSTITUENT CHANGES: AGB Research (41) has been deleted and replaced by FKB Group (41).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	46	39	27
Corporations, Dominion and Foreign Bonds	8	6	38
Industrials	311	452	825
Financial and Properties	115	177	377
Oils	25	34	46
Plantations	0	2	11
Mines	39	54	96
Others	69	101	83
Totals	613	865	1,503

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
-	F.P.	-	88	83	Acorn Inv. Tst £1	85		-	-	-	-
-	F.P.	-	7	3	Amalgamated Fin. Wrrnts.	7	+1	-	-	-	-
‡138	F.P.	11/11	140	138	Colonnade Dev. Cap. £1	139		1.0	0.9	1.0	-
§55	F.P.	-	58	55	*Edinburgh Hibernian 2p	58		-	-	-	-
-	F.P.	-	8	8	Glasgow Inc Trust Wrrnts.	8		-	-	-	-
‡30	F.P.	-	26	21	Fiverala West Ir10p	24		-	-	-	-
‡120	F.P.	-	128	120	Melville Group 10p	125	-1	14.2	1.9	4.5	12.1
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price p	+ or -
[illegible]							
310	Nil	-	35pm	30pm	[illegible] Foods Group 5p	30pm	
400	Nil	22/11	106pm	94pm	Standard Chartered	94pm	-1
100	Nil	-	7pm	2pm	Sutcliffe Speakman	6pm	-1
42	Nil	8/11	10pm	4pm	Tysons 10p	4pm	
260	Nil	26/10	43pm	23pm	Wace Group 20p	40pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. e Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♦ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Oct 24
- Last Dealings Nov 4
- Last Declarations Jan 26
- For settlement Feb 6

For rate indications see end of London Share Service

Calls in Blue Arrow, PML, Pentland, Tranwood, Trusthouse Forte Bejam, Trafford Park, Charterhall, Ramar Textiles, Benlox. Put in Stormgard. Doubles in Land Leisure, Eagle Trst.

LONDON TRADED OPTIONS

[illegible]

COMPANY NOTICES

SOCIETES DE DEVELOPPEMENT REGIONAL
11 1/8% 1983/1990
ECU 20.000.000

We inform the bondholders that the redemption instalment of ECU 4.000.000, nominal due on 20 December, 1988, has been satisfied by a drawing on 17 October, 1988, in Luxembourg in the presence of an huissier.

The bonds will be reimbursed at par on December 20, 1988, coupon due on December 20, 1989 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds are as follows:

3457 to 7172 and 15173 to 15456

The following bonds, called for redemption have not yet been presented for the payment

On 20 December 1988

8037-8039	8050-8056	8063-8067	8073-8086
8096-8112	8158-8165	8187-8189	8194-8230
8234-8275	8284-8298	8301-8346	8348-8361
8394-8424	8432-8436	8441-8463	8485-8494
8496-8506	8509-8512	8520-8522	8593-8596
8618-8655	8657	8663-8666	8718-8739
8765	8770-8803	8849-8854	8877-8879
8884-8895	8916-8930	8936-8955	9051-9065
9126-9181	9170-9180	9240-9246	9291-9308
9386-9390	9401-9444	9454	9457-9471
9478-9486	9500-9502	9514	9527-9529
9532-9533	9547	9591-9605	9633-9635
9713-9725	9756-9761	9768-9775	9791-9793
9801-9810	9861	9888-9894	9907
9934-9963	10016-10033	10048-10051	10053-10055
10059-10067	10078-10091	10125-10129	10252-10260
10265-10271	10277-10310	10321-10322	10330-10351
10363-10453	10456-10457	10493-10496	10624
10628-10631	10634-10635	10690	10720-10722
10730-10752	10769-10778	10785-10793	10804-10806
10812-10813	10816-10825	10832-10833	10911-10928
10931-10943	10945-10948	10954-10959	10976-10986
10994-10995	11000-11031	11042-11070	11076-11079
11111-11135	11147-11154	11160-11163	11223-11243
11288-11293	11371-11372	11414-11416	11431-11452
11501-11507	11533-11540	11558-11565	11580-11618
11623-11625	11627-11644	11658-11663	11665-11674
11692-11741	11794-11799	11808-11811	11818-11821
11864-11882	11893-11903	11906-11917	11924-11984
12010-12036			

On December 1987

7173-7260	7271-7417	7430-7622	7626-7638
7643-7899	7907-7959	7991-8000	8006-8036
12037-12179	12192-12255	12263-12465	12470-12528
12534-12542	12553-12573	12589-12609	12624
12627-12629	12635-12657	12675-12745	12747-12896
12899-13679	13686-13695	13698-13753	13758-13865
13879-13888	13891-14109	14113-14114	14123-14210
14213-14257	14260-14416	14479-14481	14516-14559
14569-14585	14596-14599	14605-14621	14625-14632
14639-14680	14683-14685	14981-15013	15016-15132
15141-15172			

Amount outstanding after December 20, 1988: ECU 8.000.000,-

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, avenue Emile-Reuter
LUXEMBOURG

COMMUNAUTE ECONOMIQUE EUROPEENNE
$US 26.000.000 — 13,25% 1980/1995

We inform the bondholders that the redemption instalment of $US 2.600.000, nominal due on 15 December, 1988, has been satisfied by a drawing on 17 October, 1988, in Luxembourg in the presence of an huissier. The 2.600 drawn bonds will be reimbursed at par on December 15, 1988.

In accordance with the terms and conditions of the bonds, the issuer has elected to redeem anticipatively all of its outstanding bonds at 103,5% on December 15, 1988.

Interest on the bonds will cease to accrue on December 15, 1988.

The bonds (drawn or called anticipatively) will be reimbursed, coupon nr 9 due on December 15, 1989 and following attached, according to the modalities of payment on the bonds.

The numbers of the drawn bonds and redeemable at par are as follows:

12717 to 13946 and 16549 to 17916

The following bonds called for redemption have not yet been presented for the payment:

On December 15, 1986

15589-15596	15695-15949	16001-16548

On December 15, 1987

111-122	153-163	183	210-215
240-739	803-804	24931-24940	

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, avenue Emile-Reuter
LUXEMBOURG

INTERNATIONAL COMPANIES AND FINANCE

Beazer income climbs to £115m

By Philip Coggan in London

PRE-TAX profits at Beazer, construction and aggregates group, jumped 59 per cent to £114.7m ($200m) in the year to June 30, from £72.2m in the previous period. The results do not include any contribution from Koppers, the US aggregates and chemicals group acquired for $1.7bn earlier this year.

Mr Brian Beazer, chairman, said Koppers was already performing ahead of budgets produced by both the previous and existing management. The group's assets had been revalued at £360m more than the purchase price.

Although a proposal to sell Koppers' chemicals division to a management consortium had fallen through, Beazer had received "a considerable number" of offers from other groups.

Mr Beazer said he expected the total proceeds from disposals of Koppers' businesses to be $900m.

He added that Beazer was negotiating a restructuring of group debt, which was substantially increased to pay for Koppers. He expected that, by June 30, 1989, the group would have a one-to-one gearing ratio.

The pre-tax profits figure includes an £8.6m exceptional credit, arising from the sale of part of the company's stake in BM Group. There were also extraordinary credits of £16.5m, arising from the disposals of Koppers' businesses and of Tod, the plastics manufacturer.

The star performer among the divisions was homes and property, which increased pre-tax profits from £46.9m to £62.7m on turnover up from £368.3m to £488.3m. Mr Beazer said that so far the division's performance was ahead of last year.

Gifford-Hill, the US building materials business, experienced strong trading conditions in California and the Carolinas, but Texas continued to be a weak market. The building materials division increased profits from £19.4m to £29.2m on turnover higher at £247.3m (against £155.5m).

Profits declined in the construction division from £11.8m to £11.1m but Mr Beazer said that Kier gradually improved its trading performance during the year. Turnover in the division was £569.2m (£441.4m).

Turnover for the group as a whole was £1.24bn (£1.03bn) and Mr Beazer said that the company's budgets indicated sales of £2.2bn in 1988/9. After tax of £37.8m (£24.7m) and minority interest of £1.3m (£1.6m) fully diluted earnings per share, including the exceptional item, were 24.68p (19.03p). The final dividend is increased to 4.25p (3.62p), making a total of 6.35p (5.37p).

Buitoni and Perugina agree merger with Cir

SHAREHOLDERS of Buitoni and Perugina, two holding companies controlled by Mr Carlo De Benedetti, have approved a proposed merger with Cie. Industriali Reuniti (Cir), a key industrial holding company of the Italian financier, AP-DJ reports.

Separately, Cir shareholders approved the incorporation of Buitoni and Perugina into Cir.

Mr De Benedetti decided in April to sell all the assets of pasta-maker Buitoni and chocolate manufacturer Perugina to Nestlé of Switzerland. This effectively turned the two companies from operating companies into holding companies with a total of around L1,200bn ($833m) in cash.

Mr De Benedetti told minority shareholders that following the merger, Cir would have financial liquidity of L1,100bn.

Buitoni shareholders will receive seven Cir shares for every four shares in Buitoni held in both the common and savings stock. Perugina shareholders will receive 27 Cir shares for every 50 Perugina shares held in both categories.

Aker in talks over Kosmos stake sale

By Karen Fossli in Oslo

AKER, Norway's troubled industrial group, was yesterday understood to be negotiating to sell its 20 per cent stake in Kosmos, the Norwegian shipping company, to I.M. Skaugen, another Norwegian shipping firm, for about NKr1.5bn ($225.5m).

Aker has for some time been seeking buyers for its 20 per cent stakes in both Saga Petroleum, the Norwegian oil group, and Kosmos. The group's debt rose significantly this year after the £238m ($400m) acquisition of UK-based Castle Cement through Scancem, its joint-venture subsidiary.

After several failed attempts already this year to offload its Kosmos stake for "the right price," Aker is understood to have given Kosmos the green light to seek a suitable buyer.

I.M. Skaugen recently received about NKr1.6bn when it sold a 30.7 per cent stake in Royal Admiral Cruises to Anders Wilhelmsen, which enabled the latter to block Miami-based Carnival Cruise Lines from gaining control of Royal Admiral.

Mr Gerhard Heiberg, president of Aker, refused to comment on the deal, but said that "there were some bright spots on the horizon" for the group and that "several balls which had been in the air for some time" looked like "coming down."

Separately, it is understood that Aker is trying to arrange a merger between Saga Petroleum and either Elf Aquitaine or Total CFP, the Paris-based oil companies.

In August, Mr Heiberg said that he, along with other Saga shareholders including Den norske Creditbank with its 9.77 per cent stake, supported a merger or co-operation agreement for the company.

In 1986 Saga approached Elf Aquitaine, which expressed interest in acquiring a large stake, but the idea foundered on the Norwegian authorities' wish to keep Saga a Norwegian company.

Nissan to boost capacity at Tennessee plant with additional car range

By Kevin Done, Motor Industry Correspondent, in London

NISSAN, the second largest Japanese automotive group, is planning to increase the capacity of its US vehicle assembly plant in Smyrna, Tennessee with the addition of a second car range.

The company has already committed about $760m in investment at the plant, which began production of a pick-up truck in 1983 and added the Sentra passenger car (known as the Sunny in West Europe and Japan) in 1985.

The Smyrna plant has a current capacity for producing 265,000 vehicles a year, and output in 1988 is expected to total about 220,000 units. It is building 412 Sentra cars and 488 trucks a day on a double shift.

Mr Jerry Benefield, chief executive of Nissan Motor Manufacturing Corporation USA (NMMC), said no decision had yet been made on the exact timing of the expansion or the size of the investment, but that the new car should be in production by the early 1990s.

A team of Nissan officials from the US and Japan has been set up to determine which model to produce and in what volume.

In April Nissan announced an investment of $31.1m at Smyrna for the local assembly of certain components, including Sentra engines, truck axles and bumpers. Engine assembly is due to begin in the summer of 1989 with an initial output of 12,000 units a month.

NMMC achieved a 50 per cent local content ratio in the year to March 1988, but this is due to rise to about 75 per cent in 1991.

NMMC is also to supply all the main panel parts for a front-wheel drive minivan that is being developed jointly by Nissan and Ford. The new "people carrier" vehicle, which was announced last month, will be produced at Ford's Ohio truck plant from late 1991.

The addition of new capacity at Nissan's Smyrna plant is another step in the rapid expansion of Japanese automotive groups' production base in North America, which should reach about 2.5m units by the early 1990s.

Two new plants have already been commissioned this year in the US by Toyota at Georgetown, Kentucky and by Diamond Star Motors, a joint venture by Mitsubishi and Chrysler, at Bloomington, Illinois.

(Advertisement)

DAI-ICHI KANGYO BANK

DKB ECONOMIC REPORT

October 1988: Vol. 17, No. 10

Expansionary trend to continue for Japanese economy

According to a preliminary report on national income statistics released last month, the Japanese economy contracted during the second quarter as a result of the following: 1) The growth rate for January to March in real terms registered a very high 11.2%, helped by this leap year's extra business day. 2) Exports grew weakly while imports continued their rise. 3) Both housing investment and public investment dipped.

Consumption expanding in most sectors

This recent slowdown is viewed as only a temporary phase, and the economy is expected to soon bounce back into a steady expansionary mode.

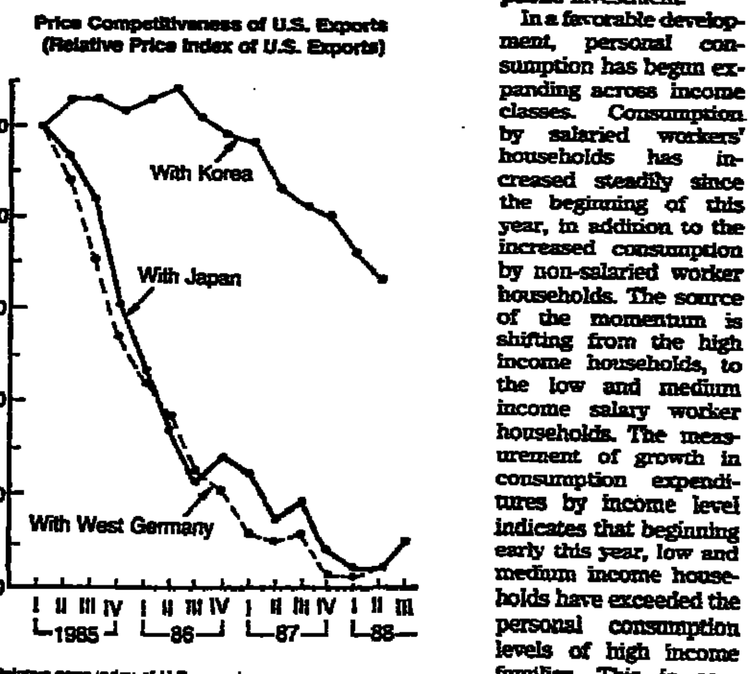
According to the Short-Term Economic Survey of Principal Enterprises for August, issued by the Bank of Japan, the outlook for the Japanese economy is bright. The Business Outlook Diffusion Index (D.I.), the ratio indicating the number of companies predicting a favorable outlook minus the ratio of those predicting an unfavorable outlook, registered its highest level in 15 years, dating back to November 1973. Optimism is high because that personal consumption and plant and equipment investment are both increasing, thus offsetting decreases in housing and public investment.

In a favorable development, personal consumption has begun expanding across income classes. Consumption by salaried workers' households has increased steadily since the beginning of this year, in addition to the increased consumption by non-salaried worker households. The source of the momentum is shifting from the high income households, to the low and medium income salary worker households. The measurement of growth in consumption expenditures by income level indicates that beginning early this year, low and medium income households have exceeded the personal consumption levels of high income families. This is considered to be an important development because it shows that through economic expansion and tax reduction, even small and medium income households with lower personal assets, are enjoying increased disposable income and are spending more.

Increased personal consumption can be seen not only in the Tokyo metropolitan area, but also in other regions. Up until the end of last year, considerable growth in sales by large retailers was generally limited to the Kanto region, but July of this year saw large retailers, around the country, post an 8% jump in sales over last year's figures.

Personal consumption continues to grow regardless of income level or region, thus supporting the trend of future economic growth.

Price Competitiveness of U.S. Exports
(Relative Price Index of U.S. Exports)



Note: 1. Relative price index of U.S. exports = Price index of U.S. merchandise exports (1985I = 100) / Producer prices of Japan (West Germany, Korea) on a dollar basis (1985I = 100) × 100
2. A decline of the relative price index means an increase in price competitiveness of U.S. exports.
3. The relative price index with Japan in the third quarter of 1988 is DKB's estimate.

Source: IMF "International Financial Statistics" Bank of Japan "Wholesale Price Indexes"

Business sector performing successfully

The strong performance of Japanese companies is reflected in active plant and equipment investment. According to the Short-Term Economic Survey by the Bank of Japan, current profits of major manufacturing and non-manufacturing industries (excluding electric power and gas), are expected to increase 21.4 and 12.7%, respectively, over fiscal 1987.

Plant and equipment investment programs by principal enterprises (excepting electric power) have increased dramatically for fiscal 1988. These general-economy benefiting investments increased by 3.2% on a year-to-year basis, in fiscal 1987 and by 20.5% in fiscal 1988. The steady continuation of plant and equipment investments by non-manufacturing industries and the sizable 23.8% increase in such programs on the part of the manufacturing industries contributed to this phenomenon.

In the manufacturing industry, all sectors except iron and steel are planning double digit increases from last year's investment level. In particular, electric machinery and general machinery industries are substantially increasing investments aimed at further developing the domestic market.

With personal consumption and capital investments increasing smoothly, the favorable general economic trend is expected to continue despite decreases in housing and public investments. The tempo of economic growth is, however, expected to become more gradual as compared with the dramatic growth spurt of the first quarter.

Foreign exchange markets see the yen's decreased value, however...

In the exchange market, the value of the yen began falling from late June, and has been hovering in the ¥130-¥135 level since July. Factors behind this trend include: 1) The United States has reduced its trade deficit. 2) Increased inflationary fears have prompted U.S. monetary authorities to accept the rise of the dollar. 3) The movement to buy high-interest U.S. bonds has raised the dollar's value.

Then, how long will the yen's value continue to fall? In order to understand this, it is necessary to study the trends of U.S./Japanese trade.

Japan's export drive is recovering, since the appreciation of the yen appears to have stopped. Exports from June to August grew by about 5.8% in volume, compared with last year's figure. From now on, exports are expected to grow steadily because of the decreased value of the yen. Consequently, the Japanese trade surplus will not continue to fall.

A principle concern, on the other hand, is whether or not the U.S. will continue to improve its trade deficit. Recently, U.S. exports have been increasing at a somewhat slower pace. This can be partly attributed to a slackening in export price competitiveness because of the stable dollar's value as well as increases in U.S. export prices (see Figure). If the growth of U.S. exports decreases, the reduction of the trade deficit will slowdown accordingly, as imports are so deeply rooted in the economy.

The improvement in the U.S./Japanese trade imbalance is expected to hold for the time being, and it is predicted that this will prevent the ongoing depreciation of the the yen seen since last June.

Yen's depreciation causes confusion in the financial market

Both short-term and long-term market interest rates have generally increased following the recent depreciation of the yen. While the yen rate dipped about ¥11 in three months, from the first 10 days of June to the early days of September, the interest rates for CDs increased approximately 0.7 points (for CDs of more than 90 days and less than 180 days). In addition, the market yield for the longest term treasury bonds increased approximately 1.4 points. If the yen begins appreciating again, it is expected that interest rates will settle.

London Branch: 122 Leadenhall Street, London EC3V 4PA, England Tel. 01-283-0929 **Subsidiaries in London:** DKB International Limited, Garden House, 18 Finsbury Circus, London EC2M 7BP, England Tel. 01-920-0181, DKB Investment Management International Limited, Garden House, 18 Finsbury Circus, London EC2M 7BP, England Tel. 01-638-9433 **Associated Companies in London:** Associated Japanese Bank (International) Ltd., European Brazilian Bank Ltd., International Mexican Bank Ltd.

Head Office: 1-5, Uchisaiwaicho 1-chome, Chiyoda-ku, Tokyo 100, Japan Tel. (03) 596-1111 **Branches and Agencies in:** New York, Los Angeles, Chicago, Atlanta, Panama, Düsseldorf, Munich, Paris, Taipei, Seoul, Singapore, Hong Kong, Cayman **Representative Offices in:** Houston, San Francisco, Toronto, São Paulo, Mexico City, Caracas, Buenos Aires, Frankfurt, Madrid, Stockholm, Milano, Bahrain, Jakarta, Kuala Lumpur, Bangkok, Bombay, Beijing, Shanghai, Guangzhou, Dalian, Sydney, Melbourne **Subsidiaries in:** New York, Los Angeles, Toronto, Amsterdam, Zurich, Luxembourg, Hong Kong, Singapore, Sydney **Associated Companies in:** São Paulo, Bangkok, Singapore, Kuala Lumpur, Jakarta, Brunei

Talk it over with DKB.
The international bank that listens.

DKB We have your interests at heart.
DAI-ICHI KANGYO BANK
Tokyo, Japan

The next DKB monthly report will appear Nov. 25.

INTERNATIONAL COMPANIES AND FINANCE

Chase wins control of Wormald

By Chris Sherwell in Sydney

A SIX-MONTH battle for Wormald International, the troubled Australian fire protection group, has ended with control effectively passing to Chase Corporation, the company headed by the New Zealand entrepreneur Mr Colin Reynolds.

Under an accord hammered out yesterday, Chase and Wormald's present independent directors accepted a strategy to strengthen the group's core fire-protection business and accelerate the disposal of non-core assets, and agreed on nominations for the board.

The announcement followed the successful build-up by Chase of a 40 per cent stake in the company, and came just three days before Wormald's annual meeting and with a costly legal challenge under way over voting rights at the meeting.

In June, Chase launched a cash-and-paper bid for half of each shareholder's stake in Wormald through Hanimex, its Sydney-based photographic group. At the time, Chase and its associate, Reil Corporation, held a combined stake of just under 20 per cent.

Chase said it wished to liquidate the company through a demerger and a return of capital to shareholders. Wormald resisted the move, saying it proposed to sell its non-core assets, including its security business.

A major complication was a dispute over a 23 per cent stake Wormald held in itself, a result of its takeover of Sunshine Australia. Sunshine was the vehicle used by Mr Lee Ming Tee, a Malaysian businessman, to control Wormald.

Mr Lee had initiated a restructuring plan last year, but it ran aground last October and he relinquished control. Reil stepped in, but its own takeover plans hit trouble after the stock market crash and were dropped in March.

Since Chase made its move in June, Wormald has reported an overall loss after extraordinary items of almost A$350m (US$286.2m) for the year to June, a deficit exceeded only by the Ariadne group under Mr Bruce Judge and the Bell stable of companies under Mr Robert Holmes à Court.

But it has also moved ahead with its asset sales, and last month announced a heads of agreement with Racal Electronics of Britain to sell its Australian security business for A$130m.

Chase meanwhile raised its offer price for half of Wormald, and then announced a bid for the rights to the shares Wormald holds in itself, which Wormald planned to issue pro rata to shareholders.

Tightening the screw further, Chase then twice raised its offer price for the rights and modified its plans for Wormald, effectively accepting that the fire-protection business had a future.

For its part Wormald insisted it was on a path back to profitability, but by this week, with the costs of the dispute to the company mounting relentlessly and Chase sitting on 40 per cent, a compromise looked inevitable, and yesterday it came, complete with the backing of the AMP Society, Wormald's other major shareholder.

The new board is expected to include five Chase representatives, among them Mr Reynolds and Mr Phillip Cave of Reil. Mr Bill Wavish, Chase's chief executive of business operations, who is also a nominee for the board, said the outcome had "settled the future control, management and business direction of Wormald."

"The new policy will be to sell immediately all assets other than the fire protection business and look to a return of capital," Mr Wavish said. "This is consistent with our stated desire to see the Wormald share price trade in the A$2.50 to A$3.00 range by mid-1989."

For the independent directors, in particular chairman Mr Rob Robson, it is the end of a saga. "To continue with the internecine warfare would do nothing but damage shareholders' interests," Mr Robson said yesterday.

Tokai to pay $120m for Master Lease

By Our Financial Staff

TOKAI BANK, one of Japan's leading "city" or commercial banks, has agreed the $120m purchase of the Pennsylvania-based Master Lease as its route into the US leasing business.

Master Lease, which according to Tokai officials is a long-standing customer of the bank and was seeking capital to expand, has some 60 branches in 10 US states. It is involved in telecommunications, office equipment, medical hardware and machine tools.

The California-based Tokai Credit, one of the bank's existing offshoots, is due to be upgraded to a full subsidiary from next month. It deals mainly in car loans; in Japan Tokai is the main bank for Toyota Motor.

Approval for the deal is being sought from the Federal Reserve Bank of San Fransisco. Tokai hopes to complete the purchase by the end of the year.

Labour costs and strong A$ hit MIM earnings

MIM HOLDINGS, the Australian mining group, said yesterday that first-quarter earnings were hit by coal-mining losses, higher labour costs and the strength of the Australian dollar, Reuter reports from Brisbane.

In the 12 weeks to September 25 operating net profits fell to A$8.45m (US$6.9m) from A$11.69m. But after taking into account exchange gains, a measure required by a revised accounting standard that MIM strongly opposed, earnings rose to A$18.61m from A$13.28m.

MIM's three coal mines lost A$15m before tax and exchange movements against a A$10.2m loss in the first quarter of 1987-88. Coal output was hit by strikes.

At the Mount Isa base metal operation, increases in labour costs and a short-term low average copper grade affected production costs, the company said. Average prices for silver and lead were lower, although those for copper and zinc were higher. Revenues totalled A$367.5m compared with A$330.2m.

Several recent developments would have benefits for the company's future, it said. These included a rights issue to raise A$403.5m, the planned sale of 25 per cent of the Newlands-Collinsville-Abbot Point coal operations to ENI of Italy, and changes to coal mining work practices.

● Energy Resources of Australia (ERA), the uranium producer, returned to first-quarter net profits of A$4.96m from losses of A$6.95m. Turnover was A$23m against just A$638,000; ERA pointed out that uranium sales were not spread evenly over the year.

Israel Chemicals doubles profit

By Laura Blumenfeld in Jerusalem

ISRAEL CHEMICALS, the country's leading chemicals group, effectively doubled net profits to US$23m in the first six months of the year, from $17.9m in the past nine months of 1987.

The improvement comes at a time when many Israeli companies are encountering difficulties. Israel Chemicals is first on the list of state-owned companies to be privatised, according to a plan submitted to the Israeli Treasury by First Boston, the US investment bank.

It is hoped to find an industrial investor as purchaser of a half share in the company. Another 20 per cent would be offered to the public on local and overseas stock exchanges, and government and company employees will retain the remainder.

Sales totalled $547.6m against $757.7m for the previous nine months, a period during which the company was changing its year-end. According to company officials, the substantial improvement reflects increased profits at most of its local and foreign subsidiaries, particularly the potash-based Dead Sea Works and the Bromine Group.

Cost-cutting measures implemented at less successful operations such as Negev Phosphates reduced their losses significantly. An additional boost was provided by the increase in world prices of many of its products including fertilisers, phosphate rock and bromine compounds.

Mr Elhanan Fass, Israel Chemicals finance director, said the company plans to invest $80m in development this year, down from the $100m average for the two preceding years. Some $25m will be raised by Meryll Lynch in London as part of a five-year rolling credit.

Lafarge Coppée in joint venture with Pioneer

By George Graham in Paris

LAFARGE COPPEE, the leading French cement producer, has formed a joint venture with Pioneer Concrete, the Australian mining, oil and raw materials group, to manufacture plaster boards.

The two companies will set up manufacturing plants in Sydney and Melbourne with a total investment of A$80m (US$65.4m).

Pioneer will take 60 per cent of the joint venture and Lafarge Coppée 40 per cent. Lafarge has already set up a sales subsidiary in Australia in the alumina cement sector, and has been developing its activities in the Pacific zone, to the point of being accused by a South Korean producer of dumping alumina cement. The French group has denied the allegation.

The French cement producer has reported first-half profits of FFr905m ($147.7m), up 16 per cent from the previous year, on sales of FFr9.6bn.

El Rayan banned from divesting assets

By Tony Walker in Cairo

El RAYAN, the troubled Egyptian Islamic investment house, has been banned from divesting assets pending the completion of a government review of the activities of all the country's Islamic funds.

El Rayan had said in newspaper advertisements that it would offer investors the option of taking the equivalent of their deposits in land and dwellings. This followed a protest by depositors last month.

The Government has given the Islamic investment sector – dominated by five big deposit takers, of which El Rayan is the largest – until November 8 to decide whether it is able to comply with a new law that seeks to regulate the companies.

Dr Atef Sidki, the Prime Minister has ordered El Rayan to shelve plans to divest itself of some of its assets.

Bond HK buy-out priced

By John Elliott in Hong Kong

BOND CORPORATION, Mr Alan Bond's Australian investment company, yesterday announced a price of HK$2.20 a share in its bid for the quoted minority of Bond Corporation International, which has been quoted on the Hong Kong stock market for two years.

The parent, which holds 66.2 per cent of the company, earlier this month announced its intention to take the remaining stock out of public hands.

The price set yesterday falls between the market price of HK$1.49 at which trading was suspended on October 6 and a net asset value of HK$2.81 estimated at June 30.

● The Hong Kong Stock Exchange said yesterday it would reject a plan by Paul Y Holdings, a local construction company, to list new shares. The decision by the exchange's listing committee could kill a one-for-one rights issue by Paul Y to raise HK$294m (US$37.7m), AP-DJ adds.

UK COMPANY NEWS

Enlarged St Ives 32% up at £23m

By Clare Pearson

ST IVES Group, a book and magazine and security printer, yesterday announced pre-tax profits of £23.04m in the year to end-July, 32 per cent ahead of the 1987 result which was restated to include Burrups, the financial printer acquired for £45m in October last year.

The pre-tax figure included a £3.04m gain on disposal of property, although this was partly offset by £2.36m worth of redundancy costs at Burrups. Turnover rose by nine per cent to £167.33m (£153.27m).

On current trading Mr Robert Gavron, chairman, said demand for St Ives' services was so strong it was having to turn business away. "In 33 years in the printing business, this is the first time I have seen a serious problem of orders exceeding supply," he said.

Among numerous recent magazine contracts, St Ives has this week won an order to print World of Interiors for Conde Nast. It has also taken on the Sunday Telegraph and Observer's colour supplements.

The company has also recently introduced what it believes are the most advanced robotics to be used by a general printer anywhere in the world at its factories in Plymouth and Peterborough. It expects to match last year's £28m spend on capital equipment in the current twelve months.

On Burrups, Mr Gavron said it was impossible to separate out this year's contribution. But he estimated its profits were between 30 and 35 per cent up on the £3.5m achieved in the previous year.

The advance came from stringent cost-cutting measures, as demand from the City for Burrups' services had dried up shortly after its acquisition, and was not now back to levels seen before the stock market crash.

On a 30 per cent tax charge, which is expected to rise to 35 per cent next year, earnings per share advanced by 38 per cent to 14.6p on a fully diluted basis. The company, which is adopting a more generous dividends policy, proposes a final payment of 2.25p making 3p for the year, a 56 per cent increase.

● comment

Analysts expect earnings per share to grow at well under half 1988's rate this time, which just about sums up St Ives' position. Up till now, the company has done pre-eminently well in an industry where cost-cutting was the norm, acquisitions could quickly be turned around, and demand was mushrooming. But there are growing concerns about the sustainability, particularly of the consumer magazine boom (witness the recent sudden demise of IPC's woman's weekly Riva), and the amount of new printing capacity about to come on stream. However, if attention has now shifted to the defensive aspects of companies in the sector, St Ives with its strong stress on investment in more and more efficient plant should come out well. Nevertheless, the shares, which stand on a prospective p/e of about 13 if pre-tax profits reach £27.5m this year, seem to have limited upside.

Acsis pays up to £28m for acquisitions

By Nikki Tait

ACSIS GROUP, the former jewellery retailer which is being turned into a marketing services company by South African entrepreneur Mr Darryl Phillips, yesterday announced five separate acquisitions, for a maximum of £28.3m.

The initial cost of £17.4m is being financed by the issue of 29.3m new shares, 24.8m of which are being placed out. A further maximum £10.8m of deferred payments is possible.

Acsis is also issuing another 3.53m shares to raise additional capital for the group and cover expenses. The share issue almost doubles Acsis's existing issued capital from just under 40m shares to about 72m.

Acsis was one of the highest stock market fliers at the end of the bull market. In the wake of the crash, deals become more difficult, although the former shell company has managed to complete a handful of small transactions. These have taken it into specialist recruitment and specialist media sales.

Four of the five companies in the package augment these activities. The recruitment companies are Selected Accounts Personnel, Kerr Staff and the Times companies.

The first made pre-tax profits of £491,000 on sales of £1.57m in the year to end-March, and is being bought for an initial £3.65m, with a further maximum performance-related consideration of £1.1m.

Kerr, based in Ealing, west London, is expected to make £300,000 in the 12 months to end-October, and Acsis is paying £1.8m.

The Times companies, based in central London, produced £116,000 pre-tax in the year to end-April, and are being bought for £700,000.

On the media sales side, Acsis is buying Richmond Designs, which specialises in hotel and restaurant planning and design. Its home is Covent Garden, London, and in the 12 months to January, profits were £257,000. The initial cost is £3.77m, with a maximum deferred payment of £3.5m. An additional sum is possible for its Richmond Miller subsidiary.

The largest deal is IMC, which manages continuity sales promotion programmes for supermarket and cash-and-carry groups. Here profits ran to £535,000 in the year to end-January. The initial consideration is £7.5m.

The 28.35m shares have been conditionally placed at 58.5p a share. Existing shareholders are entitled to claw back at a similar price, on the basis of one new share for every 1.48 shares held.

Next ends two franchises

Next, retail group, is terminating its franchise operations in Norway and Sweden. Next supplied the six shops with stock, but it is thought that turnover was insufficient to justify the continuation of business.

Next said its European growth would in future be driven by the company's own management. Next runs a chain of shops in West Germany called Biba, which is believed to be the vehicle for European expansion.

B&F in £12.4m rights as profits double

By Andrew Hill

BENNETT & FOUNTAIN Group, fast-growing electrical wholesaler and retailer, is to raise £12.4m through a one-for-three rights issue, reducing gearing from about 150 per cent to below 40 per cent.

The group, which has grown from 31 retail and wholesale outlets to 196 over the last two years and moved from the Unlisted Securities Market to a full listing in January, announced pre-tax profits nearly doubled to £5.31m in the year to June 30. The previous figure was £2.7m.

The group is issuing 42.3m shares, at 30p apiece, against yesterday's closing price of 35p, down 2p. The proceeds should help cut interest charges, which rose from £335,000 to £1.2m last year.

Bennett is also proposing to consolidate every four 5p ordinary shares into one 20p share, to allow smaller relative movements in the share price.

Turnover for the period more than doubled, from £31.3m to £65.9m, 52 per cent of which came from Bennett's 47 (36) wholesale stores, which generated 68 per cent of group profits. In each case the balance was provided by the retail chain, which added 115 new stores, including 78 acquired in August with the purchase of the Edwin P Lees group.

Gradually, Bennett is changing the names of all its retail branches to Bennetts, while the wholesale division, which the group hopes to build to a chain of 60 stores, trades as Bennett & Fountain. Simultaneously, the company is installing electronic point of sale (Epos) equipment in its stores.

Mr Stephen Coleman, finance director of Bennett, which retails no own-brand products, said the group had not detected any downturn in consumer spending across its network of branches, which spreads from Glasgow to the south coast.

"It's an enormous market and we are finding the public is very discerning: they want a branded product," he said yesterday.

He added that although the group would integrate its latest purchases during 1988-89, it would not ignore suitable opportunities for further acquisitions.

Earnings per share grew from 1.96p to 3.09p during the period and the company recommended a final dividend of 0.3p, making a total of 1p (0.7p) for the year.

River Plate

River Plate and General Investment Trust, a split-level investment trust, has acquired 495,000 shares in TR Australia Investment Trust, lifting its holding to 8.27m shares or 25.23 per cent of the capital.

LIT acquires stake

LIT Holdings, futures and options broker, has completed the acquisition of 24.5 per cent of the equity of Levitt Group (Holdings). LIT has an option to increase its holding to 33.33 per cent.

Frederick Cooper rises 40% to £6.7m

By Andrew Hill

A BUSY acquisitions programme during the year to July 31 helped Frederick Cooper, industrial holding company, increase its pre-tax profits by 40 per cent to £6.7m, against £4.77m in 1986-87. Profits at the original businesses rose by 27 per cent.

Mr Eddie Kirk, chairman and chief executive, said Cooper, which bought five companies during 1987-88, aimed to make another major acquisition by the end of this financial year.

He said the deal would probably surpass the group's largest acquisition to date, the £15.1m purchase of Lorlin Electronics, a USM-quoted maker of switches and connectors.

A large deal could be partly funded by the disposal of some of Cooper's original metal finishing and specialist engineering businesses, he added.

Having eliminated borrowings at the 1986-87 year-end, Cooper also has about £1.5m of cash in hand which could be used for smaller purchases, Mr Kirk said.

Lorlin was included for seven weeks of 1987-88, but Mr Kirk said Cooper would take legal action relating to "discrepancies" in the electronics group's accounts for the year to December 31.

Turnover rose from £41.5m to £54.9m during the year and Cooper expects sales to surpass £100m within the next 12 months.

During 1987-88 the architectural and security products division made £2.23m (£1.35m) before tax, electrical products' profits nearly doubled to £1.65m (£875,000), material handling profits increased from £1.66m to £1.8m and pre-tax profits at the specialist engineering division rose from £190,000 to £402,000.

Earnings per share increased from 12.1p to 15.9p during the year and the company recommended a final dividend of 2.15p, making 3.25p (2.35p) for the year.

● comment

Favourable City opinions of Cooper's development were tinged with faint doubts yesterday, and this ambivalence was reflected in the share price, which slipped from 172p to 165p. Cooper alleges that Lorlin's problems have their roots elsewhere, but in any case a disappointing performance from Lorlin this year would probably be offset by strong growth from other businesses, especially in the two core divisions, making and distributing electrical, architectural and security products. These divisions now account for about 50 per cent of profits and turnover. Cooper aims to increase this figure to 65 or 70 per cent by the end of July 1989, and 80 per cent in the longer term. Based on full year profits of about £9.5m before tax, the shares look reasonable value on a prospective multiple of about 10.

Kelt/Carless

Kelt Energy, the oil independent which is making a bid for the larger Carless group, continues to pick up shares in its target. It announced yesterday that it has purchased a further 500,000 shares, taking its total stake to 10.9m shares or 6.1 per cent.

FR Group disappoints again with fall to £9.6m

By Clare Pearson

FR GROUP, maker of specialised equipment for the aircraft, energy and electronics industries, once again disappointed the market with its results yesterday. The shares eased 9p to 215p after it announced interim pre-tax profits £590,000 lower than last time at £9.6m.

Mr Giles Irwin, finance director, said expenditure on product development had been higher than expected. But he stressed that the company had "identified opportunities for the future and are confident we shall see the rewards coming through in the next few years." There would be a marked improvement in the second half.

He declined to disclose how high development expenditure had been during the six months to end-June, but said the figure was 30 per cent higher than in the comparable period in 1987. This had been spent mainly on developing air-to-air refuelling pods for the US Airforce's KC10 aircraft, but also on fuel components for the European Fighter Aircraft and the new European Airbus.

A subsidiary W.E.S. had recently obtained the prime order to develop the logistic container system for Trigat, Europe's third generation medium-range weapon programme which is expected to get under way in the mid-1990s.

Mr Irwin said the group's order book was in good shape overall, although Hymatic, the UK subsidiary that makes coolers for thermal imaging systems, had sustained deferments and some cancellations.

Both this subsidiary and Alan Cobham Engineering, which makes filters, produced lower results than in the first half of last year.

FR's balance sheet is strong: net cash stands at about £35m. Mr Irwin said it hoped to announce within a few months the acquisition of an unquoted business operating in the aerospace and defence field.

Turnover in the first half stood at £55m (£56.7m). Interest receivable was £1.8m (£2.5m). After tax of £3m (£3.5m), earnings per share came out unchanged at 9p. There is an interim dividend of 1.94p (1.82p).

● COMMENT

FR Group's business can with all justification be described as long-term, and the company is still viewed as fundamentally strong. It has, for instance, apparently virtually redesigned the inflight refuelling pod for the US Airforce. But on the other hand it used to be able to deliver healthy increases at the operating profits level; this came to a halt with its last full-year results; and nobody knows when growth will resume. At the same time, FR has made itself increasingly unpopular with the City by failing to give any warning of its recent dull performance. This picture means that the shares, on a prospective multiple of over 10 on analysts' downgraded full-year profits estimates of about £23m pre-tax (against £20m last time), may look expensive on trading grounds, but should be underpinned by speculation about the possibility of a bid.

All-round growth at A Cohen

FAVOURABLE TRADING conditions throughout the group helped A Cohen & Co, maker of non-ferrous metal ingots in which GM Firth has been building a stake, increase interim taxable profits by 45 per cent.

In the six months to June 30 turnover was £37.54m, against £25.93m, a rise of 45 per cent for profits up from £1.32m to £1.92m.

Earnings per 20p share came out at 60.64p (36.32p) after a tax charge of £833,000 (£543,000).

The directors said that they thought a substantial increase in the interim dividend was justified and announced a rise from 4.1p to 6p payable on both the ordinary and 'A' non-voting shares to absorb £198,000 (£76,000).

Attributable profits were £1.09m (£674,000).

Directors added that the favourable trading conditions had continued in the third quarter and that prospects for the full year remained good, subject to the usual caution required in forecasting metal and currency markets.

The group had changed its treatment of currency translation and was now using the average rate for the period being covered. If the same treatment had been used in the comparable period attributable profits would have been cut by £9,000. During the six months Cohen sold its 59 per cent holding in Avemet for £1.3m.

Boosey & Hawkes marches on

BOOSEY & HAWKES, brass band instrument maker and music publisher which moved back into profit for 1987 after three years of consecutive losses, continued its progress during the first half of 1988.

Profits for the six months rose from £186,000 to £698,000 pre-tax and shareholders are to receive an interim dividend of 3p, the first such payment since 1985.

Traditionally, second half profits are significantly higher than those for the opening six months. The directors pointed out, however, that the disparity might not apply in the current year, noting that high interest rates would bear directly on the group's results and might also have an indirect influence in moderating the total market.

Nonetheless, they expected the group to continue its progress.

Turnover for the first six months was little changed at £19.39m (£19.2m). Interest accounted for £748,000 (£501,000) and tax for £351,000 (£165,000). Earnings worked through at 3.5p (0.3p) per share. For 1987 as a whole the group swung from losses of £1.86m to profits of £972,000. Losses reached £8m in 1985.

C and W questions profit prospects

Telephone Rentals has failed to explain how it will be able to improve profitability in an increasingly competitive market, Cable and Wireless, which is bidding 305p a share for the communications equipment supplier, said yesterday.

Earlier this week Telephone Rentals published a defence document, in which it reported a 17.6 per cent increase in interim earnings per share to 18.1p. Reacting to this, Mr Gordon Owen, managing director of C and W, said:

"The stockmarket has been expecting an increase in earnings per share in the current year after a four year plateau and our offer already takes account of this. TR's document contains various statements about market position and talks about exciting prospects but does not explain how TR is going to achieve sustained increases in earnings per share in an increasingly competitive telecommunications marketplace."

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
AGB Research ......fin	1	-	4.75	4	7.5
Beazer ......fin	4.25	Jan 3	3.82	6.36	5.37
Bennett & Fount ......fin	0.7†	-	0.3	1	0.7
Boosey & Hawkes ......int	3	-	nil	-	3
Cohen (A) ......int	6	Feb 8	4.1	-	14.52
Cooper (Fredk) ......fin	2.15	Feb 1	1.5	3.25	2.35
Forward Group § ......int	1	Dec 30	0.8	-	2.8
FR Group ......int	1.94	-	1.82	-	4.52
Moss Bros. ......int	1†	Dec 9	0.58	-	2.5
NMW Computers ......int	nil	-	1.5	-	2.5
Presaac Holdings ......fin	1.25	-	1.138	1.75	1.58
Regina Health § ......fin	0.5	Nov 25	0.284	0.5	0.284
St. Ives Group ......fin	2.25†	-	1.33*	3	1.92*
WA Holdings ......int	0.65†	Dec 9	0.4	-	1.2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Chelsea Artisans, Elliott (B.), ...

Finals- ...

FUTURE DATES

Interims-

Anglo American Coal ...... Oct. 31
B.A.T. Industries ...... Nov. 23
Boots ...... Nov. 24
Cook (Wm.) ...... Nov. 18
Eastern Produce ...... Oct. 31
El Oro Mining Expln. ...... Oct. 28
Exploration Co. ...... Oct. 28
Fleming Universal Inv. ...... Oct. 27
Hughes (H.T.) ...... Nov 7

Finals-

Ambrose Inv. ...... Nov. 8

Pressac hits £3.3m but warns on current year

By Richard Tomkins, Midlands Correspondent

PRESSAC, Nottingham-based manufacturer of electrical connectors and components, yesterday announced an 18 per cent increase in pre-tax profits for the year to July with an attempt to dampen over-enthusiastic expectations for growth in the current year.

The pre-tax figure of £3.34m (£2.83m) marked the fourth year of strong profits growth for the company, but Mr Geoff White, finance director, said forecasts of £4.6m for 1988-89 were unrealistic.

"We have identified several areas for expansion as we go into the 1990s and there are some for which we do not have the necessary technology in place," he said.

"We intend to reshape the group where necessary to meet the market's demands, and the cost of reorganisation means that the profits growth of the last few years will not continue at the same rate."

Turnover for the past year rose from £30m to £33.7m and earnings per share rose from 10.1p to 12.2p. A 10 per cent increase in the final dividend to 1.25p makes 1.75p (1.56p).

The automotive division, which supplies instrument circuits and connectors, benefited from record car sales and increases in market share. Sales in North America shot up by 40 per cent and left Pressac a dominant supplier in its field.

The television and domestic appliances division had another satisfactory year amid strong consumer demand. IBM was an important customer in the UK and North America for large quantities of cathode ray tube connectors.

Telecommunications, however, which supplies plugs, cords, DIY kits and other products mainly to British Telecom, suffered from overcapacity in the sector and did not deliver satisfactory profits. Pressac hopes tighter cost control and an easing of competitive pressures will enable it to widen margins.

Lowndes Queensway puts Poundstretcher on sale

By Maggie Urry

LOWNDES QUEENSWAY, the group headed by Mr James Gulliver that took over the Harris Queensway furniture and carpet retailing business this summer, formally put its Poundstretcher chain up for sale yesterday.

It is hoping for a price between £60m and £70m. Lowndes Queensway's shares closed 1p up at 79p.

At the time of the £450m bid for Harris Queensway, which went through in August, it was made clear that both Poundstretcher, a 150-shop discount chain selling clothes, toys and household goods, and Hamleys, the famous toy shop in Regent Street, London, were for sale.

Mr Bryan Portman, corporate finance director of Lowndes Queensway, said it hoped to raise £110m through sales of subsidiaries to pay off part of its £250m medium-term debt. Already £24m of cash has been released by the sale of its 75 per cent stake in Harveys, a soft furnishings chain, to a company headed by Sir Phil Harris, former head of Harris Queensway.

Lowndes Queensway also announced yesterday that it had limited its exposure to further interest rate rises by fixing £140m of its medium term debt at a rate of 11.4 per cent through to March 1990.

If interest rates drop below 10 per cent in the mean time, an event which Mr Bryan Portman, the corporate finance director, regards as unlikely, the company will get the benefit of the fall.

Mr Portman said the group's effective borrowing cost in the next financial year would be between 12 and 12½ per cent.

Lowndes Queensway is believed to have been offered £50m for Poundstretcher from the management, headed by Mr Stephen Fearnley and Mr Paul Appell, who founded the chain in 1981 and own 5 per cent of the equity.

The auction, being handled by Charterhouse Bank, appears to be an attempt to flush out a higher bid, either from the management or from elsewhere.

The original agreement made by Mr Fearnley and Mr Appell with Harris Queensway gives them substantial management autonomy and powerful pre-emption rights, although Charterhouse believes they could not veto a good offer for the group from a reasonable source.

Poundstretcher made pre-tax profits of £7m in the year to January 1988, after paying £1.5m in rent to Harris Queensway. Poundstretcher is being sold with its shop properties, valued at £23m. Thus on a pre-tax figure of £8.5m and a 35 per cent tax charge, a price of £60m (for 95 per cent) would give an historic p/e of nearly 11.5.

Hamleys was put on the market last month. Final talks are taking place with three possible buyers – understood to be non-UK companies. A decision should be made within the next fortnight.

Noble Grossart, the bank handling the sale, would not comment on the likely price, although outsiders believe original hopes of £40m proved far too high.

NMW falls into loss as low market activity continues

THE CONTINUED lower level of activity on the stock market resulted in NMW Computers, supplier of accounting services and systems, falling into losses in the six months to the end of June 1988.

On turnover down £2.65m to £5.92m pre-tax losses were £428,000, against profits last time of £1.91m. Losses per share were 1.7p, compared with earnings last time of 6p, and the interim dividend has been passed.

Mr E.B. Bibby, chairman, said that stock market volume was half that of the corresponding period. However, the company was able to attract new users. He added that action had been taken to cut spending and monthly costs should be down by a third at the end of the year.

NMW was continuing to introduce new products and also broadening its activities to reduce its dependence on the City.

Nearly 40 per cent of the losses were incurred by the associate, Broker Services, which also provides services to the securities industry and has been equally affected by the same depressed conditions. Mr Bibby said the board was seeking to reduce its exposure to further losses at BSL, while keeping it as an important customer for NMW's data processing and network services.

The trading loss for the first half was £125,000 (£2.05m profit) with the share of losses of a related company at £174,000 (£130,000). The pre-tax figure was struck after an increased net interest charge of £129,000 (£10,000).

AIG trading begins tomorrow

By Nick Bunker

SHARES in American International Group, the largest US-based stock market quoted property/casualty insurer, are to start trading on the London Stock Exchange tomorrow, following a listing sponsored by Kleinwort Benson, merchant bank.

The listing is aimed partly at raising AIG's profile in London and the European Community, where the group last year signalled its determination to expand by restructuring its EC non-life insurance operations under a single Paris-based company, UNAT.

AIG has a stock market capitalisation of about $11.8bn (£6.75bn). Mr Maurice Greenberg, AIG's president, said in London yesterday that 1992, the date for the creation of a single EC internal market, was "not irrelevant" to the decision to seek a London listing.

Mr Greenberg expected "some intangible benefits" for AIG's European operations to flow from the listing.

Last September, for similar reasons, the group obtained a listing on the Tokyo Stock Exchange. AIG is the largest foreign life insurer in Japan, and has more than 2 per cent of the non-life market.

Explaining its motives yesterday for the London listing, AIG also emphasised its current expansion from its core property/casualty and life insurance operations into financial services, partly via UK activities, including a 20 per cent stake in the Household Mortgage Corporation.

Via a subsidiary, AIG Financial Products Corporation, the group has also become a leading participant in the international interest rate and currency swap markets.

The financial services division provided $39.5m of AIG's total group 1987 net pre-tax income of $1.1bn, but Mr Edward Matthews, chief financial officer, said yesterday the aim was that it should grow to make "a meaningful contribution" to overall earnings.

Regina Health & Beauty plans £2m rights issue

Profits before tax of Regina Health & Beauty Products, USM-quoted manufacturer and distributor of Royal jelly products, rose from £402,000 to £718,000 for the year to end-June 1988. Turnover expanded from £1.7m to £3.42m.

The company also called for £1.9m net, to expand activities, via a one-for-three rights issue at 36p a share, to be underwritten by Jacobson Townsley and Co.

Dividend for the year is being stepped up to 0.5p (0.248p) from earnings of 2.77p (1.69p).

Forward Group at £0.7m despite narrower margins

By Richard Tomkins, Midlands Correspondent

FORWARD GROUP, a USM-quoted manufacturer and designer of specialist printed circuit boards for the electronics industry, increased pre-tax profits from £588,000 to £717,000 in the half-year to July.

The Tamworth, Staffs, based company increased earnings per share from 5.2p to 6.3p and has decided to raise the interim dividend from 0.8p to 1p.

The latest figures reflect a considerable narrowing of margins because two acquisitions made at the turn of the year did not contribute to profits.

Turnover rose from £2.77m to £4.5m.

However, Mr John Goulding, chief executive, said the integration of the two companies – Technograph Microcircuits and Silicon Microsystems – was progressing well and a contribution to profits could be expected next year.

The mainstream circuit board manufacturing operation had made excellent progress during the half year, Mr Goulding said, and some £1.3m had been invested in making it more productive.

Property sales boost Moss to over £1.2m

Including an exceptional £559,000 from property sales, Moss Bros, menswear hirer and retailer, achieved a substantial jump in pre-tax profits from £475,000 to £1.24m for the six months to July 30. Turnover rose 26 per cent to £15.03m compared with £11.91m.

The result also included turnover and profits from Cecil Gee's summer sale, Mr Wilfred Cass, the chairman said, and the figures should not be taken as an indication of the level of improvement for the full year. Cecil Gee, acquired in May in an agreed £12m takeover, was being successfully integrated, he added, and expansion plans were in hand.

The interim dividend is stepped up to 1p (0.58p) and earnings per 5p share, including the exceptional item, were 6.29p (2.43p).

Looking ahead, Mr Cass said the significant improvements of the new Moss Bros group would begin to come through from the start of the 1989/90 financial year.

Tax charged was £435,000 (£178,000).

WA Holdings at over £1m

WA Holdings, distributor of industrial and consumer products formerly known as Weeks Associates, raised its profits from £665,000 to £1.06m pre-tax for the half year ended July 31 1988. Turnover rose by 25 per cent to £12.82m.

Earnings totalled 1.85p (1.59p) per 10p share. The interim dividend is stepped up to 0.65p (0.4p) to reduce disparity. Directors said the company continued to hold a material cash surplus and profits were benefiting from current high interest rates.

THE BATTLE FOR CONSOLIDATED GOLD FIELDS

DTI statement on Gold Fields referral puzzles analysts

By Kenneth Gooding, Mining Correspondent

"The Secretary of State considers that there are possible effects on competition in the markets for certain high value minerals and metals, and especially titanium and zircon, which deserve investigation," said the UK Department of Trade and Industry yesterday when explaining why the Consolidated Gold Fields bid had been referred to the Monopolies and Mergers Commission.

This explanation puzzled mining analysts who pointed out that the raw material from which titanium and zircon are produced is in abundant supply, reasonably well distributed throughout the world and that the involvement of both Gold Fields and Minorco in this business is tenuous.

Rutile (titanium oxide) and zirconium are mainly found in beach or mineral sands along with ilmenite. The commercial viability of mining depends on world-wide demand for all three minerals.

Australia dominates the production of rutile and zirconium and South Africa is also a significant contributor to world output.

The main use for titanium minerals is in the manufacture of titanium dioxide pigment, the major pigment for most white paints. Consequently, demand for rutile tends to be linked to economic cycles, specifically to new house starts.

As a metal, titanium is valued for its high strength, light weight and resistance to corrosion. The main consumer is the aerospace industry – another cyclical business – and the titanium producers have been plagued by long periods of over-capacity.

They have been encouraging submarine builders to use titanium metal and have had some success in getting the material into chemical plants, marine parts and in medical products such as pacemakers, artificial joints, pins and so on.

Zircon used as a sand or powder goes mainly to foundries, refractories and to produce abrasives.

Zirconium metal has excellent corrosion resistance and is used as a component for alloys used in chemical processing plant and in aerospace engineering. The metal is also used for fuel cladding in nuclear reactors.

The mineral sands industry is dominated by Renison Goldfields Consolidated which produces 30 per cent of the world's rutile and 45 per cent of the zircon. Renison is 48 per cent owned by Gold Fields, which has no other interests in the minerals sands business.

Renison is also an "Australianised" company which means Gold Fields influence is limited.

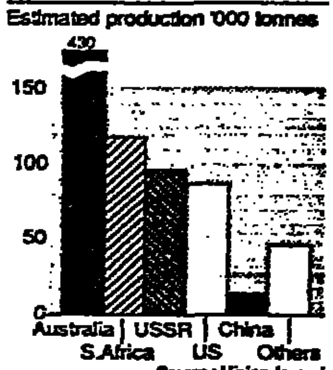
Australian governments have always been very protective of their country's natural resources and would be unlikely to permit Renison to fall under foreign control.

The two big mineral sands companies in South Africa are owned by foreign groups (British Petroleum and Consolidated Rutile, an Australian company) but Gencor, the South African mining group, has a minority stake in one.

The only connection the Anglo American group of South Africa (of which Minorco is a part) has in mineral sands is a 5 per cent stake in Gencor.

Zircon Sand

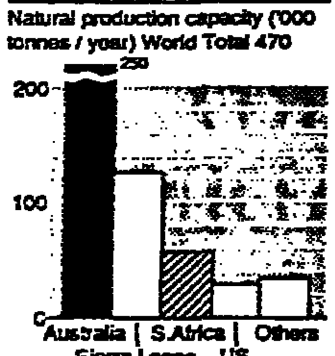
Estimated production '000 tonnes



Source: Mining Journal

Titanium Oxide

Natural production capacity ('000 tonnes / year) World Total 470



Source: Mining Journal

Referral guessing game fuels criticisms

Nikki Tait looks at recent decisions taken by the MMC

SECOND-GUESSING whether bids will be referred to the Monopolies and Mergers Commission has long been one of the City's least favourite games. For years it has regularly been wrong-footed.

In recent months, market operators have had a particularly bad run. In May there was decision not to refer the Nestlé bid for Rowntree, the extent of the market's fears was demonstrated by a near 10 per cent jump in the Rowntree price. Within weeks, however, the Commission was called to examine the 22 per cent stake built up by the Kuwait Investment Office in the UK oil giant, British Petroleum, a decision which immediately rekindled protectionist fears and – rather irrationally – knocked a good few other bid candidates on the way.

Come August, shares in Ranks Hovis McDougall, the British bakeries group, clattered downwards on the surprise news that a £1.7bn bid from the Australasian company, Goodman Fielder Wattie, was to be investigated. Now there is the Consolidated Gold Fields decision.

All in all, the recent pattern of events seems certain to reinforce the views of critics who argue that key referral decisions are taken on political grounds, rather than following cool, principled logic. How justified is this?

The grounds for referral are drawn widely. Although there has been some form of merger control in the UK since the mid-sixties, the current system – involving an initial recommendation by the Office of Fair Trading to the Secretary of State for Trade and Industry – dates from the 1973 Fair Trading Act. This originally required the OFT to look at all deals resulting in merged assets of over £15m or a market share of over 25 per cent.

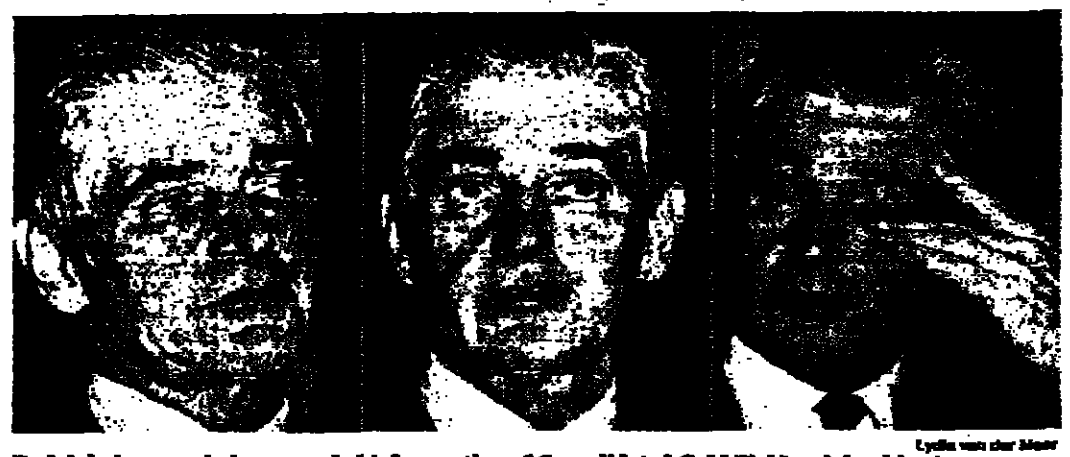
The Government, with the OFT's advice in mind, then decides whether or not a referral should be made. If so, the MMC must consider whether the deal acts "against the public interest". Although hard-and-fast definitions are avoided, the Commission is required to consider five areas: competition, the interests of consumers, costs and innovation, a balanced distribution of industry and employment in the UK; and exports.

The system was last reviewed by the Government in the early eighties. The results, announced after some delay in July 1984, appeared at first to be less than dramatic. The system was not to undergo any radical overhaul, although the limit on qualifying deals was lifted to £30m.

What was significant was the added comment from the then Secretary of State, Norman Tebbit, that competition would now be the principal reason for a referral. Moreover, competition would be defined in an international context; domestic oligopoly might be defensible if it improved British competitiveness abroad. Subsequent ministers underlined this stance.

Throughout 1986 and 1987 it appeared that the stated policy was working reasonably well. The number of bids examined by the OFT rose with the level of bid activity, but the percentage referred tended to diminish. In 1982, for example, the OFT advised on 192 deals, of which 10 were referred; in 1987, the figures were 321 and six respectively. The DTI, moreover, last overruled a recommendation from the OFT two years ago. And, although individual parties occasionally whinged, few decisions were seen as capricious.

It is largely in 1988 that major questionmarks have emerged again. A couple of areas have been particularly sensitive. The first is the issue of leveraged bids – those financed by large chunks of bank debt. These have been relatively scarce in the UK, but – in the light of the depressed stock market conditions – seem to be a modest growth area.



Rudolph Agnew, chairman and chief executive of Consolidated Gold Fields, giving his views at a Press conference after yesterday's decision

Lydia van der Meer

Policy appeared to be fairly well-defined by the MMC inquiry into the Elders IXL bid for Allied-Lyons in 1986, which was specifically triggered by the financing structure. Elders was given the green light, and despite the subsequent referral of Gulf Resources/IC Gas, the broad permissive policy appeared to be underlined when Barker & Dobson's £2bn leveraged bid for Dee escaped any objection.

But the position was then clouded when Goodman Fielder saw its RHM offer sent to the MMC. A merged group with far higher borrowings, ran the argument, might be less able to compete in the delicately-poised UK bread market. True, competition grounds had been dutifully cited, but if a group's debt level is taken to be a key factor in its competitiveness the whole argument becomes somewhat circular.

Secondly, there is the critical question of how UK competition policy fits into the broader European picture. Various issues surfaced in the Rowntree debate – not least the question of effective reciprocity and how broadly market shares should be defined – and with 1992 looming, the power debate between Brussels and domestic regulators simmers on.

Yesterday's decision falls into neither area. This time, competition has again been cited – in particular the possible effects on the market for zircon and titanium. But the explanation simply puzzles City analysts, who point out that the raw materials for both are in abundant supply.

All in all, Lord Young's speech to the Stock Exchange this Thursday – when, it is understood, merger policy will be discussed – should make interesting listening.

MMC DECISIONS

BIDDER	TARGET	OUTCOME
1986		
GEC	Plessey	against public interest
Imperial Group	United Biscuits	proposal abandoned
Guinness	Distillers	proposal abandoned, leading to new offer
JB & S Lees	Firth Cleveland Steel Strip	proposal abandoned
Norton Opax	McCorquodale	not against public interest
Tate & Lyle	Berisford	proposal abandoned
Hillsdown	Berisford	proposal abandoned
London Intl	Wedgwood	proposal abandoned
P&O	EuroFerries	not against public interest
Fernzzi	Berisford	against public interest
THF	Hanson assets	not against public interest
Strong & Fisher	Garnar Booth	proposal abandoned
Gulf Resources	IC Gas	proposal abandoned
1987		
CHS	H&F Imperial beverages	against public interest
MAI	LSC Advertising	against public interest
Swedish Match	Allegheny assets	not against public interest
British Airways	British Cal.	not against public interest
Berlelsmann/Les Presses de la Cite	SCA stake/Leisure Circle stake	against public interest
Warner Comm.	Chappell	not against public interest
1988		
Hanson	George Armitage assets	proposal abandoned
Mitek	Gangnail	against public interest
KIO	BP stake	against public interest
Goodman Fielder	Ranks Hovis McDougall	proposal abandoned
Thomson Travel	Horizon Travel	–

Competition identified immediately as possible line of defence

Well-planned lobbying campaign by Gold Fields

By Hazel Duffy

A WELL-PLANNED, sustained campaign of discreet but strategic lobbying was behind the decision yesterday by Lord Young, Trade and Industry Secretary.

To British ears, lobbying conjures up connotations of expensive entertaining of influential people in government and even greasing of palms.

The Gold Fields' campaign was much more in the developing style of the use of specialists who make it their business to understand the workings of the organs of state, both in the UK and the European Community, and prepare their case accordingly.

As soon as the bid was announced, Gold Fields commissioned Sallingbury Casey, part of the Saatchi and Saatchi group, to act as its public affairs advisers, on the basis of their experience in contested bids. Set up and chaired by Mr Michael Casey, a former civil servant at the Department of Industry, the consultants could call on a team with expertise in Whitehall, Westminster, Brussels and Strasbourg.

The campaign strategy was managed by the defence team, consisting of the top Gold Fields managers, Freshfields, City solicitors, Cazenove, stockbrokers, and Shandwick, press relations consultants. The team, meeting daily, acted like a clearing house, supported by a chain of command within Gold Fields. This gave it the ability to act quickly in a highly mobile situation.

The early task was to make a collective assessment of the political, economic and regulatory implications of the bid, and how they interfaced with the attitudes being struck by foreign governments, notably in the US, Australia and Papua New Guinea. It cut right across the normal City tactics in a bid of this type.

The competition angle was identified immediately as a possible defence line. From that followed the need to examine the implications for competition and other matters affecting the public interest as laid out in the Fair Trading Act, on which Casey had worked when in Whitehall.

Lord Young, Trade and Industry Secretary, was bound to ask the Office of Fair Trading to investigate on the grounds of the assets involved, although not to refer the bid. From that point, it was a question of marshalling the facts to the Government's policy on competition to strengthen the case for a referral. In parallel, a similar assessment of the impact of European Community competition law was undertaken.

In focusing on the impact of the merger on supplies of strategic minerals and metals, it was noticeable from press releases issued over the last weeks that the Gold Fields' campaign played down the South African political content. The decision clearly had been taken that it would be a mistake to get publicly bogged down there.

While the detailed formal submission to the OFT was being prepared the more traditional type of lobbying was proceeding. In the UK, about 100 MPs were identified as having an interest in the outcome because Gold Fields, mainly through ARC (formerly Amey Roadstone), had activities in their constituencies.

The purpose of this part of the campaign – made more difficult by the fact that Parliament was not sitting – was to get them to think about the possible consequences of Minorco on these activities, and to spur them into writing to Lord Young. The key reasoning was that, in the end, the Secretary of State assessed the climate of opinion in deciding what is in the public interest. There was no lobbying, however, of ministers.

In the meantime, key members of the House of Lords were acquainted with the implications of the bid. In Strasbourg, where the European Parliament – its role strengthened by the Single European Act – was in session, MEPs whose constituency interests might be affected were lobbied.

Consumers on the Continent, many of them unaware that their supplies originated with Gold Fields, were also alerted to the bid.

Back on the formal front, the Competition Directorate in the Commission in Brussels was being briefed in preparation for the formal submission of the Gold Fields case last week, if the Commission decides to investigate, coming on top of the referral in Britain, lobbying-type indulgence might at last be in order as a celebration.

Full Panel rejects arguments to lapse bid

THE FULL Takeover Panel said yesterday that it found the questions raised in the Minorco/Consolidated Gold Fields bid "a deeply disturbing case", and added that it was undesirable for bids for large public companies to be conducted against the background of an inquiry into possible insider trading, writes Nikki Tait.

Nevertheless, the Panel decided to reject Gold Fields' arguments that the bid should be required to lapse, saying that this would not be fair to Minorco or to all shareholders in Gold Fields.

"The circumstances in which the Panel may require a bid to lapse are set out in the rules and, while these are not necessarily exhaustive, great care should be taken before they are added," commented the Panel.

"In the present case, where no specific breach of the rules on the part of Minorco has been established, the Panel does not consider that it would be justified in requiring the bid to lapse."

Gold Fields argued that the bid should lapse because it was not presently known whether conduct by Minorco and its associates had contributed to any insider dealing. It added a secondary contention that the Panel should preclude Minorco from buying shares in the market and impose a higher level of acceptances – above the usual 50 per cent – before the bid could go unconditional.

Minorco's response was that the establishing of a DTI inquiry did not of itself suggest any evidence of fault of its part. Since no breach of the code had been established, it argued that it would be inappropriate for the offer to lapse.

In its decision, the Panel bore in mind the fact that Gold Fields made no positive allegation of insider trading against Minorco, while Minorco maintained that it had taken every step to ensure that the code was complied with.

Minorco supplied supporting affidavit evidence from Mr Julian Ogilvie Thompson, chairman, Sir Michael Edwardes, chief executive, and three executive directors.

The Panel conceded that "it must always be possible that, however distinguished the deponent, the affidavit might prove inaccurate", but went on to argue that the implications of any inaccurate or irresponsible statement by Minorco would be extremely serious – with considerable sanctions available.

The Panel also added that it was unconvinced by the additional argument that the market had been "destabilised" by insider dealing.

UK COMPANY NEWS

Ladbroke pays up to £42m for Sandfords

By Philip Coggan

LADBROKE GROUP, the hotels, property, betting and retail company, has emerged as the buyer of Sandfords, Britain's eighth largest DIY retailer, from Sharpe & Fisher, builders' merchants, for a maximum of £42m.

Sharpe & Fisher announced that it was selling Sandfords in August, when brokers hoped it would raise as much as £50m. The £42m consideration from Ladbroke includes £7m for three freehold properties.

S & F is taking the unusual step of distributing the bulk of the proceeds to its shareholders. To accomplish this, a new company will be created, Sharpe & Fisher (1988) and shareholders will receive one new S & F share plus 160p in cash, Ladbroke shares or loan notes, for every existing share.

Mr Charles Fisher, S & F chief executive, said the company had decided to sell Sandfords because it was too small to compete with the major chains. Having made that decision, S & F determined that it would have sufficient resources for expansion without the bulk of the sale proceeds.

The purchase of Sandfords, which has 15 stores in central and southern England, will further expand Texas Homecare, Ladbroke's DIY chain.

On Monday, Texas acquired the Building Scene retail chain from Meyer International for £8m.

Following the acquisitions, Texas, the second largest DIY chain in the UK, will operate 200 superstores.

Texas said it projected Sandfords' pre-tax profits in the first full year of operation under its management would be £7.2m. Last year, Sandfords' profits were £2.5m on turnover of £34.9m.

COMPANY NEWS IN BRIEF

GLOBE INVESTMENT Trust has cut its stake in Clyde Petroleum from 6.3 per cent to 4.832 per cent through the sale of 2.86m ordinary, making its holding 8m ordinary. Globe has however, undertaken to take up the rights attaching to the whole of its previous holding of 10.36m shares, following which the stake would be increased to 5.443 per cent of the enlarged share capital.

JERSEY ELECTRICITY CO: dividends payable on January 1 1989 have been declared at the rate of 5 per cent per annum on the cumulative part preference share capital and 3½ per cent per annum on the cumulative non-part preference share capital.

PERGAMON PROFESSIONAL & Financial Services had declared its recommended offers for AGB Research unconditional in all respects and extended them until further notice. AGB's board is recommending a final dividend of 1p per ordinary share. Shareholders accepting the Pergamon offer are entitled to retain this dividend.

ROYAL TRUST Japan Growth Fund: net asset value at end of year to September 30 stood at 48.34p, against 48.39p amended for shares split. Gross revenue £18,040 (£23,129), operating expenses £28,948 (£33,908), leaving a deficit of £10,908 (£10,779).

SAVAGE GROUP is issuing 1.25m new ordinary shares, which have been placed to realise £2.34m for the vendors of Newton Holdings. Further new ordinary with an aggregate value of £660,000 (the remainder of the final instalment) are to be retained by the vendors. In addition 401,070 new ordinary have been issued as the final tranche of the consideration to the vendors of DCS. Their placing realises £750,000 and makes a total of 1.65m shares issued on behalf of the vendors at 187p.

SCOTT & ROBERTSON has sold CS Plastics to Cookson Group for £720,000 cash. Pre-tax profits for 1987 were £129,000 and net assets at period end were £113,000.

SHANDWICK is buying SCR Associati, Milan-based public relations consultant.

STEETLEY, through its subsidiary Groupe Garon Steetley, is to acquire the Lorraine Quarry and Coated Roadstone Co. Enterprise Jean Bernard for about £10m. It is envisaged that some 80 per cent of the shares will be acquired in January 1989 and the remainder over the following four years.

THEME HOLDINGS: As at 3pm on October 19, Leisure Investments has received acceptances in respect of 22.68m Theme ordinary shares (98.14 per cent). Leisure now owns or has acceptances for 22.74m ordinary (98.38 per cent).

MANAGEMENT

Flexibility of production

Where variety is the stuff of success

Christopher Lorenz continues his series on companies in the north-east of England by examining how Linear, a maker of window "weather stripping", uses ingenuity to meet widely contrasting product demand in different countries

Eric Foster runs a manufacturing company which owes its existence to a specialised line of products for which demand is falling in its home market in Britain, and stagnating in Europe as a whole. Yet he is thoroughly optimistic about competing in Europe's supposed "single market" after 1992.

The main reason is that his company, Linear, has already learned how to avoid the pitfalls of exporting to a set of fragmented markets with very different customer characteristics and distribution patterns.

Above all, Linear has developed the difficult knack of reaping greater economies of scale in production while responding to the ever-increasing demand for quick delivery of a bewildering array of product variants, often in very small runs.

This is a challenge which faces most successful manufacturing companies as they grow from small to medium, and then medium to large.

Linear, a 90-person minnow with sales of £6m, makes synthetic woven pile weather-stripping seals for aluminium windows at a factory at Newton Aycliffe, County Durham.

It was born nine years ago as a joint venture between an entrepreneur, John Garnett, and the Laird Group, a medium-sized British industrial products multinational which owns a wide variety of businesses.

Laird took over full control three years ago when it became clear that Linear needed further capital in order to expand more rapidly, both at home and abroad. Garnett was then promoted to a new role as head of Laird's growing window and door security systems division – which includes Linear – and was succeeded by Foster, who had been his marketing director.

By then Foster had five years' experience of spearheading Linear's export drive – much of it on the continent, which now accounts for over 40 per cent of the company's total sales; another 30 per cent-plus is exported elsewhere, to countries all over the world.

Linear's two main continental markets – both of which are growing, unlike that in Europe as a whole – are France, entered six years ago, and Portugal, where sales began in 1985. Other continental markets include Scandinavia, Spain, Italy, Benelux and West Germany – though the latter has always had only limited potential for Linear's product line because of its tradition of using rubber, instead of fabric, seals in aluminium windows.

MEDIUM-SIZED COMPANIES

The European challenge

"If anyone thinks there'll really be one European home market after 1992, well . . .!" laughs Foster, breaking off in mid-sentence as if the idea is too absurd to be contemplated. In his business, he says, national custom and practice require "significant differences in product design between markets, some superficial but others fundamental enough to need production changes".

The challenge is multiplied by the fact that the company "takes on new applications and innovations from different countries every month," according to Foster.

It is not only product preferences that vary widely, but also distribution patterns. "It's like imagining Britain with a different system for each county," says Foster. He expects some slow convergence of product preferences, but little in distribution channels (see right.)

France, Linear's largest export market, epitomises the fragmentation with which the company has to cope right across the continent. "France is immensely complicated," says Foster. "Even large customers want a vast variety of products in small volume."

Among a long list of product variants, he cites differences in the pile's width, height, shape, colour, degree of softness and hardness, as well as in the length of the reel on which it is wound. Some customers want weather-stripping with adhesive and paper backing, others do not; some want their name on the pile, others prefer it plain; and so on.

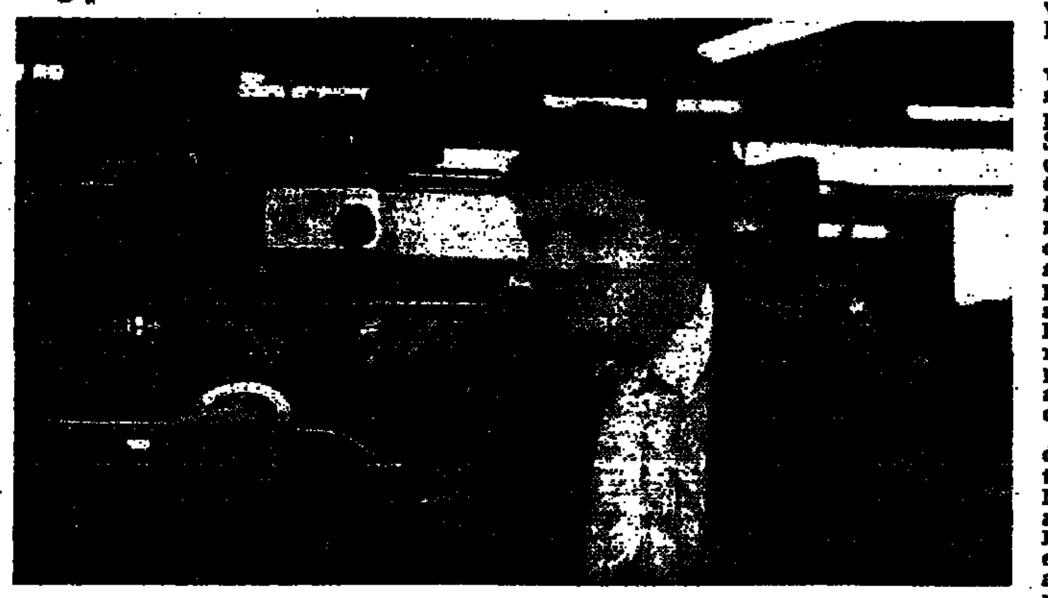
The permutations are well-nigh endless. "Some of our competitors won't supply all these variants," says Foster, "but if you want a big market share you have to. That was part of the company's original philosophy."

The only way Linear has been able to meet this challenge without running into impossible stock burdens and manufacturing inefficiencies has been to improve its production flow. For this it has relied on a mixture of automation and down-to-earth ingenuity.

A couple of years ago, for instance, the company decided to seek orders for the type of weather-stripping used in French roller shutters, which allows them to run easily.

This differs from the various sorts used in windows in that it consists of a low-density brush with very little pile, but a stiff bristle. "We had to learn how to do it using our existing weaving machines," says Foster. His small engineering department devised various modifications in order to get the bristle sewn in to the pile at an angle, rather than at 90 degrees as in most of the company's other products.

At roughly the same time, Linear was faced with growing demand from small-scale French window fabricators for stripping on short reels of only 100 metres, instead of the usual 500m. This created a major production problem, in that the more frequent swapping of reels hit shopfloor productivity at the very time that market price pressures had just spurred Linear into a new productivity improvement drive.



Eric Foster: reaping economies of scale while responding to demand for small runs

Again, the solution was some ingenious equipment redesign, allowing reels to be changed while the processing machines ran even faster than before.

Foster is cagey about the precise mechanical means by which this flexibility was achieved, which is understandable since Linear's single UK competitor would dearly like to know, as would its handful of rivals elsewhere in Europe. But the lay visitor to the Newton Aycliffe factory can see all the machines in high-speed action, even if questions of "what's behind that casing?" are met with polite reticence.

The company is equally non-committal about the electronics used to semi-automate its quality control procedures. But, as a supplier to Japanese companies which have what Foster calls "unbelievably high quality demands," Linear proudly claims that its standards easily meet the highest levels in Europe.

As in a number of other industrial sectors, there is already a European standard for the window industry (or, more precisely, a scale of standards which embrace each country's own standards system).

In this, as in other respects, 1992 will bring as few changes for Linear as for most of the other companies featured in this series. "It's not revolutionary for us – it's only international marketing," says Foster.

But he concedes that the prospect of 1992 is causing Linear to rethink some of its distribution arrangements. If border delays are indeed reduced, as the European Commission plans, "we won't always need to use local warehousing so much in order to ensure reliable delivery - we'll be able to deliver direct," says Foster.

If Linear had not already accumulated so much experience of continental markets, the imminent lowering of frontiers would now be teaching it a lesson which other small and medium-sized companies must grasp if they are to succeed.

As Foster puts it, "we've learned the need to diversify – being a one-product company has meant that we've found it hard to find distributors in the smaller-volume markets." It took time to unearth one in Germany, for instance. "Having a broader product range would have opened up a whole lot of other possibilities," Foster says.

Linear is now starting to play its part in just such an approach to the British market, as a way of fending off the expected increase in competition from a host of more specialist importers.

Under a new group strategy of diversification within the window and door accessories industry, Laird recently acquired two companies, Crompton and Reynolds, which make hinges, locks and a range of other hardware. Because of Linear's marketing strength and experience, Foster's company has been chosen to distribute their products to trade customers; its catalogue of such items is likely to grow as further acquisitions are made by Laird's new security systems division, with Linear's founder John Garnett at its head.

Like other enlightened UK companies, in other words, both Linear and its parent are grappling with the fact that the coming of the European "single market" poses at least as many new risks in Britain as opportunities across the Channel – a point which the Thatcher government's 1992 publicity campaign all but ignores.

Previous articles in this series appeared on October 5, 12 and 26. The final article will be published on November 2.

Continental cocktail

ERIC FOSTER'S dismissal of the concept of a "single market" in Europe after 1992 rests partly on the myriad of distribution differences with which Linear has to cope from country to country, and even within countries. He expects little change in these patterns.

In Greece, for instance, individual window-makers buy short lengths of weather-stripping off the reel, while in Spain and Portugal larger companies take it by the container load. Belgium is a mixture of both routes; three major companies take large consignments, but each town also has dozens of family companies, "with just one man and his son," as Foster puts it. France, Linear's largest export market, is a much simpler proposition since it consists of a limited number of very large companies.

Linear uses as many as six different methods of distribution, depending on the market. Not all of them involve legal agreements. John Garnett, Linear's founder, had experienced problems with local agents at his previous company, and quickly taught Eric Foster about the risk of finding that a carefully agreed agency deal can be over-ridden by a country's national law – to the supplier's financial disadvantage.

In seven countries, including Greece, Italy, Portugal, Spain and West Germany, the company sells through distributors who hold their own stock. But the exact patterns vary; in Greece its distributor sells through builders' merchants, whereas in Germany they sell direct to window fabricators. In Portugal and Spain the pattern is mixed.

In Sweden, where potential sales are small because triple-glazed timber windows are the norm, Linear uses a manufacturer's representative – a sort of agent, but without a legal agreement. In other parts of Scandinavia, Linear sells direct from the UK.

Method four, in Belgium, uses a local agent, with stock coming direct from the UK. The Netherlands are different again; there, a window systems manufacturer acts as Linear's distributor.

Finally, the company sells to France through its own local warehouse and sales subsidiary. Unusually for a small company, Linear has operated this way in France, its first export territory, ever since it started business there in 1982.

BIM votes in favour of charter

THE DRIVE to establish a series of national management qualifications moved a stage further last week when the British Institute of Management announced that its members have voted overwhelmingly to apply for a royal charter.

As a chartered institute, the BIM would become the body responsible for supervising and awarding the qualifications.

The BIM said that 93.6 per cent of its members had voted in favour of applying for the charter in a postal ballot, easily exceeding the 75 per cent majority required. The Institute said that 12,161 members had returned their ballot papers, out of a total of 55,516 eligible to vote.

The Council for Management Education and Development will join the BIM in its application for charter status. CMED was set up in response to the Handy and Constable/McCormick reports, published last year. Both reports called for urgent action to upgrade the training and development of British managers.

Under the chairmanship of Bob Reid, chairman of Shell UK, CMED recommended the establishment of a series of national qualifications for junior, middle and senior managers. It said that the BIM was the only national body capable of administering such a system.

The proposed system of qualifications has been criticised by Charles Handy and John Constable, the authors of last year's reports.

They have said that they fear the proposed system will be too bureaucratic and will fail to win the support of younger managers. Their fears have been echoed, privately, by several leading British executives.

Bob Reid insists, however, that none of the critics has offered any constructive alternatives.

There is little doubt that he will continue to be the driving force behind the proposed qualifications. At the BIM's annual general meeting last Friday he took over as chairman, replacing Brian Wolfson, chairman of Wembley, the leisure group, who stepped down after two years in office.

Michael Skapinker

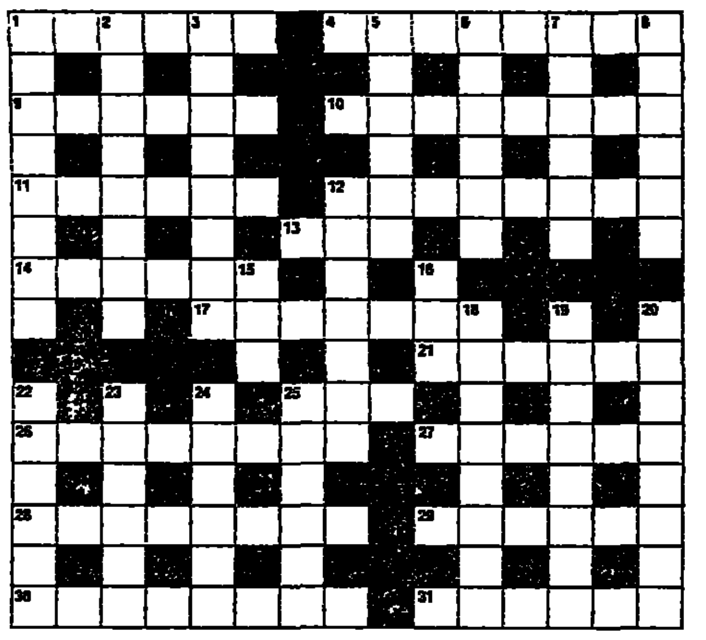
FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CROSSWORD

No. 6,769 Set by VIXEN



ACROSS

1 Given a gift which must be listed (6)
4 Quiet charm going together with taste (8)
9 Possibly raise pounds for a foreign country (6)
10 The main computer? (3-5)
11 Rogues appearing in every kind of suit (6)
12 Not supported, so unsettled (8)
13 A writer put in prison (3)
14 Refinement is agreeable initially to youth (6)
17 Having some bearing on new trade becoming steadier (7)
21 Focus of money service (6)
25 Paid in advance sometimes (3)
26 Reached for preparation and ate it (8)
27 Walker on edge? That's a tale! (6)
28 Sultry but popular outside right (8)
29 One in a position to get fish (6)
30 Concerned with the meaning, returned the record (8)
31 Ship carrying border plants (6)

DOWN

1 Object about family speculation (6)
2 Talk – the standard weapon! (8)
3 First principles of steelmen's newly formed union (8)
5 One by one (6)
6 Artful lamentation about a certain measure taken (6)
7 Dicky warned him (6)
8 Childish affection for a wild bird (6)
12 A sportsman in a rush cut in (7)
15 The outmoded sort of shirt – up to now (3)
16 A little exercise can leave one dry (3)
18 Call for a rise (8)
19 Guiding line about a point repeated (8)
20 Having to look over many fewer won't give one the pip! (8)
22 The star found an alternative (6)
23 Firm got SRN replaced (6)
24 "Pensive poets painful — keep" (Pope) (6)
25 An establishment where people grow old (6)

Solution to Puzzle No.6,768

ALBERT EINSTEIN
I A A O A A E
RELENT ATOMISER
C M C A A P T V
ROOMIEST SLEEVE
A R D C C I R S
FLAG ARMBAND
T L B I S G A G
DABBLED SCAR
H F C E R A C I
ALIGHT OVERTURE
N E E B E D R V
GANGLION BERATE
A D O R N T R
RESERVED STEEPS

[illegible]

GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust Information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♠ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

Other explanatory notes are contained in the last column of the FT Unit Trust information pages

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

OTHER UK UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Phoenix Assurance Co Ltd

Premium Life Assurance Co Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd – Contd.

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Heritage Life Assurance Ltd – Contd.

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group (z)

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd (z)

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co. Ltd.

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan & General Assurance Soc

Windsor Life Assur Co Ltd

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plan.) Ltd

The Analysis Group PLC

Ashville Insurance Brokers (Life & Pens)

Atticus Financial Services Ltd

Blackstone Franks Plc

Bryan Wallis & Partners Ltd

Cameron Law & Company Ltd

James Campbell & Son Financial Services

Chase de Vere Investments Ltd

Clifton Financial Mgmnt Ltd

Dunedin House Plc

First Financial Services PLC

The Fitzgerald Group

Gartmore Fund Managers Ltd

Hinton Hill (L & P) Ltd

Investment Portfolio Services Ltd

Johnson Fry Plc

Kingsdale Financial Management

Knight Williams & Company Ltd

Lamb & Partners Plc

M & E Financial Management Plc

Marsh Financial Management Ltd

Noble Lowndes & Partners Ltd

O'Halloran & Co/Coombeyside

Optimum Fund Mgmt Ltd

PBB Fund Management Ltd

The Pendulum Group

Rockleigh Financial Management Ltd

Sharp (Albert E.) & Co

Sirhale Fund Management Limited

Tattersall Investment Mngt. Ltd

Towry Law & Co

University Medical General Ltd

J. D. Ward Financial Services Ltd

Ward Consultancy

Yorkshire & Lancashire Investment Mgt.

OFFSHORE AND OVERSEAS

UK LISTED

Allied Dunbar International Fund Mgrs. Ltd

Brazil Capital Services Ltd

Capital House Fund Mngrs. (C.I.) Ltd

Capital House Fund Mngrs. – Contd.

Citibank (CI) Ltd "Citifunds"

CMI Financial Mngmt Services Ltd

Color Allen Investment Management (CI)

EBC Trust Company (Jersey) Ltd

Equity & Law International Fund Mgrs Ltd

Fleming Overseas Fund Mngt. Ltd

Foreign & Colonial Mngt (Jersey) Ltd

GT Management Plc

Hambros Fd Mgrs (CI) Ltd

Henderson Administration

Hellenic Scandinavian Fund Ltd

Hill Samuel Fund Mngrs (Jersey) Ltd

Ivory & Sime (Jersey) Ltd

Ivory & Sime Portfolio Inc

Jardine Fleming Inv Mngt Ltd

Kleinwort Benson (Guernsey) Fd Mgrs Ltd

Lloyds Bank (CI) U/T Mgrs

OFFSHORE INSURANCES

Albany International Assurance Ltd

CMI Insurance Co Ltd

Eagle Star International

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	1988 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
100	99	Treas. 9½pc '88	[illegible]		—	—
102	99	Treas 11½pc 1989	99		11.53	11.81
101	98	Treas 9½pc Cnv 1989	97		9.59	11.65
97	95	Treas 3pc 1989	97		3.09	8.62
102	99	Treas 10½pc 1989	99		10.59	11.82
102	98	Exch. 10pc 1989	98		10.27	11.70
103	99	Exch 11pc 1989	99		11.03	11.35
97	94	Treas 5pc 1986-89	96		5.21	9.38
104	98	Exch 10¼pcCv '89	99		10.27	10.49
107	102	Treas 13pc 1990	102		12.68	10.65
104	100	Exch 11pc 1990	100		10.96	10.64
107	102	Exch 12½pc 1990	102		12.22	10.70
93	90	Treas. 3pc 1990	91		3.27	8.00
99	95	Treas 8¼pc 1987-90	96		8.52	10.36
102	95	Treas 8pc Cv 1990	98		8.09	8.70
103	98	Treas. 10pcCv 1990	99		10.09	10.52
91	87	Exch 2½pc 1990	88		2.81	8.39
107	101	Treas 11¾pc 1991	102		11.48	10.48
95	90	Funding 5¾pc '87-91	93		6.25	9.53
90	86	Treas 3pc 1991	87		3.42	8.46
103	98	Treas 10pc Cv '91	100		9.94	9.73
107	100	Exch. 11pc 1991	101		10.82	10.33
98	92	Treas. 8pc 1991	93		8.52	10.33
113	105	Treas 12¾pc 1992	106		11.92	10.14
104	98	Treas 10pc 1992	99		10.04	10.14
98	92	Treas. 8pc 1992	93		8.53	10.17
106	99	Treas 10½pc Cv 1992	101		10.38	10.12
86	82	Treas. 3pc 1992	83		3.58	8.23
112	104	Exch 12¼pc '92	106		11.50	10.14
117	108	Exch 13½pc 1992	110		12.21	10.14
97	91	Treas 8¼pc 1993	93		8.80	10.05
105	97	Treas 10pc 1993	100		9.98	9.95
115	107	Treas 12½pc 1993	109		11.46	10.01
93	87	Funding 6pc 1993	88		6.80	9.04

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling and dollar firmer

STERLING PERFORMED reasonably well yesterday, responding to Monday's intervention by the Bank of England, and the comments by Mr Nigel Lawson, Chancellor of the Exchequer, in the House of Commons.

In replying to Opposition questions on the UK economy Mr Lawson reassured the City about the Government's commitment to a strong pound, and to fight inflation with a policy of high interest rates.

The pound touched a peak of DM3.1450, but then eased back to close at DM3.1400, compared with DM3.1300 on Monday. Sterling also rose to $1.7535 from $1.7525; to SFr2.6625 from SFr2.6550 and to FFr10.7275 from FFr10.7000, but was unchanged at Y222.25.

According to the Bank of England, sterling's exchange rate index rose 0.2 to 76.2.

The next test for the pound will be the release of tomorrow's UK trade figures for September. A visible deficit of less than £2bn is likely to bring some relief to strained nerves in the sterling markets.

The dollar maintained an upward course, but received a setback from weaker than expected US durable goods orders in September.

The market was expecting orders to have fallen 0.8 p.c., and was therefore surprised by the decline of 4.1 p.c., with non-defence orders falling 3.5 p.c.

Immediate reaction suggested the data reduced the chances of higher US interest rates, but durable goods orders form an erratic series of figures, and more guidance may be provided by today's announcement of third quarter growth in US Gross National Product.

Forecasts for GNP growth are in the range of 3.2 p.c. to 3.3 p.c., compared with 3.0 p.c. in the second quarter, but some estimates are as high as 3.7 p.c.

A high figure should help underpin the dollar, but it was suggested that the durable goods news indicates rather slower growth.

Nevertheless the currency seems set to stay in a narrow range until after next month's US Presidential election.

The dollar rose to DM1.7905 from DM1.7865; to Y126.80 from Y126.75; to SFr1.5185 from SFr1.5145; and to FFr6.1175 from FFr6.1050.

On Bank of England figures, the dollar's index rose to 95.5 from 95.4.

There was some concern over a possible realignment of the European Monetary System, on confusion about whether the Bundesbank had tightened its monetary policy.

Yesterday's moves by the Bundesbank in the Frankfurt money market appear broadly neutral however, and were followed by no change in the Bank of France money market intervention rate.

The French authorities would almost certainly have been forced to defend the franc with higher rates, if the Bundesbank had tightened.

The franc held steady in Paris, and there was no sign of Bank of France support for the currency. The relaxed attitude of the central bank has led to speculation that tomorrow's figures on French trade in September will show a considerable improvement over the August deficit of FFr9bn.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct.25	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4101	+2.24	+0.82	±1.5344
Danish Krone	7.85212	7.99276	+1.79	+0.37	±1.5404
German D-Mark	2.05853	2.07064	+0.59	-0.83	±1.0981
French Franc	6.90403	7.07723	+2.51	+1.09	±1.3674
Dutch Guilder	2.31943	2.33491	+0.67	-0.75	±1.5012
Irish Punt	0.768411	0.774380	+0.78	-0.64	±1.6684
Italian Lira	1483.58	1541.75	+3.92	+3.07	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Oct. 25	Latest	Previous Close
£ Spot	1.7517-1.7522	1.7480-1.7485
1 month	0.56-0.55pm	0.56-0.54pm
3 months	1.50-1.48pm	1.51-1.48pm
12 months	4.75-4.65pm	4.78-4.68pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

Oct. 25	£	$
[illegible]	[illegible]	[illegible]
N Zealand	2.8145-2.8195	1.6075-1.6105
Saudi Ar	6.5660-6.5780	3.7500-3.7510
Singapore	3.5110-3.5145	2.0060-2.0080
S Af (Cm)	4.3035-4.3150	2.4655-2.4675
S Af (Fn)	7.0040-7.1465	4.0000-4.0815
Taiwan	50.20-50.55	28.70-28.80
U.A.E.	6.4320-6.4420	3.6725-3.6735

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Short pound hits support point

SHORT STERLING futures weakened on the Liffe market yesterday, closing near the day's low, and on a technical support point of 87.80 for December delivery.

Trading remained active as traders weighted for the Chancellor to reply to Opposition questions about the economy in the House of Commons, and for the publication of the UK trade figures tomorrow.

One large trader with a long position in short sterling attempted to squeeze short positions ahead of the Chancellor's statement, but with the market already bearish about the prospect for interest rates, the trader failed to force prices higher and was eventually forced to retreat.

Long gilt futures also finished around the day's low in quiet trading.

Mr Lawson's comments are not likely to have a favourable impact on the sterling interest rate markets according to dealers.

He has said the correct words to reassure the City about sterling, and the Government's determination to reduce inflation, but this means no early prospect of lower interest rates.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
90	640	713	0	5
92	441	518	1	10
94	245	338	5	30
96	102	204	26	60
98	14	105	138	161
100	3	31	327	323
102	2	12	526	504

Estimated volume total, Calls 728 Puts 1598
Previous day's open int. Calls 37648 Puts 37392

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
82	711	761	3	27
84	513	525	5	58
86	322	358	14	120
88	146	242	38	204
90	41	145	133	307
92	14	105	306	429
94	5	39	461	661

Estimated volume total, Calls & Puts 130
Previous day's open int. Calls 7049 Puts 5204

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Nov	Calls-settlements Dec	Puts-settlements Nov	Puts-settlements Dec
17000	1517	1548	7	38
17500	1046	1113	36	103
18000	633	741	123	231
18500	320	451	314	442
19000	136	248	625	738
19500	46	123	1036	1113
20000	12	55	1502	1545

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 0 Puts 7

LIFFE £/$ OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LONDON SE £/$ OPTIONS

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

EUROPEAN OPTIONS EXCHANGE

[illegible]

BASE LENDING RATES

[illegible]

MONEY MARKETS

Broadly neutral

CONFUSION GREETED news that the West German Bundesbank had set no fixed rate at this week's securities repurchase agreement tender, but had raised the size of the banking systems rediscount quotas.

Was the Bundesbank tightening or loosening its monetary stance? At first there was a strong conflict of opinion, before analysts decided that the moves were broadly neutral.

Recent tenders have been at a fixed rate of 4.25 p.c., but the offer of a variable rate tender is likely to move very short term rates higher, because banks who are short of funds will be tempted to bid at higher levels.

UK clearing bank base lending rate 12 per cent from August 25 & 26

According to the latest figures commercial bank reserve holdings at the Bundesbank fell sharply on Friday. This pushed call money up to around 4.80 p.c. from 4.75 p.c. yesterday, and should increase demand for funds at the tender.

On the other hand the Bundesbank has offset the upward pressure on rates by offering more money to banks at the minimum 3.5 p.c. discount rate. The amount that the banking system can borrow at this rate, under the system of rediscount quotas, has been raised by 10 p.c., to DM55bn from DM50bn.

There was confirmation that the Bundesbank had not changed its monetary policy when the Bank of France left its money market intervention rate at 7.25 p.c. at yesterday's securities repurchase agreement tender in Paris.

If the Bundesbank had tightened its stance the Bank of France would almost certainly have followed suit, to defend the weak franc against the D-Mark in the EMS.

In London interest rates were steady, with three-month interbank unchanged at 12¼-12⅛ p.c.

Comments by the Chancellor, in the House of Commons came too late to have any impact.

The Bank of England initially forecast a London money market shortage of £200m, but revised this to £350m at noon, and to £300m in the afternoon.

Help of £284m was provided, all before lunch, when the authorities bought bank bills in band 4 at 11⅞ p.c.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills absorbed £583m, with the unwinding of bill repurchase agreements draining £1,429m. These factors outweighed Exchequer transactions adding £1,735m to liquidity, a fall in the note circulation of £60m, and bank balances above target of £35m.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

FT LAW REPORTS

Postal strike problem for company meeting

BRADMAN v TRINITY ESTATES PLC
Chancery Division: Mr Justice Hoffmann: September 29, 1988

SHAREHOLDERS WHO receive late or no notice of an extraordinary general meeting because of a postal strike have an arguable case that notification was invalid if it is questionable whether service was effective under the Articles of Association, and in interlocutory proceedings the court may restrain the company from convening the meeting pending trial, if shareholders might otherwise suffer injustice.

Mr Justice Hoffmann so held when granting an interlocutory injunction to restrain Trinity Estates plc from holding an extraordinary general meeting on the following day. The application was made ex parte by Mr Neil Nathan Bradman, the plaintiff representative shareholder in a class action against the company. The class of shareholders was as yet undefined.

MR JUSTICE HOFFMANN said that the company was launched in 1987. The joint managing director was a Mr Keith Price, who was principal partner in a firm of surveyors, development and planning consultants called Lawson Price.

An extraordinary general meeting for September 30, 1988 was convened by notice dated September 6. Its business was to consider a resolution to authorise the acquisition of a created company incorporated to acquire the business of Lawson Price.

When the notice and the accompanying circular were sent out, strike action was being taken in the Post Office. The company decided to post circulars to shareholders outside the London area, but to deliver by courier to registered addresses within the London area.

As a result of the strike some of the shareholders living outside London did not get their circulars until September 17, some later and some not at all. Certain shareholders wrote to the company protesting against the holding of the meeting on the grounds of inadequate notice. There were also strenuous objections to the transaction on its merits.

In the present application Mr Neil Bradman, holder of 20,000 shares, sought an injunction first, on the ground that he intended to take proceedings under section 459 of the Companies Act 1985 to restrain the transaction from being carried into effect, on the ground that it would be unfairly prejudicial to his and other shareholders' interests; secondly on the ground that the meeting had not been validly summoned under the notice provisions in the Articles of Association.

One of the grounds of the section 459 application was said to be that the transaction departed from what was held out to shareholders in the prospectus – it would mean that less of the company's assets would be represented by bricks and mortar and more by the goodwill of a service company, and that the company was overpaying for Lawson Price's business.

Taken by themselves, objections to the merits would not be grounds for granting interlocutory relief at the present stage.

Looking at the question of notice, however, it did seem likely that there might be shareholders who would feel reasonably aggrieved if they had not received notice, or had received very short notice, on account of the postal strike.

It was an issue on which feelings among some of the shareholders ran high, and there was risk of a justifiable feeling of unfairness if they considered they had not had the opportunity to present the case for the opposition.

The question was whether the Articles gave them any legal basis on which to make that complaint.

Article 135 provided that notices might be served personally, by post, or by delivery to the registered address. It said that "Where a . . . document is . . . sent by post, delivery shall be deemed to be effected at the expiration of 24 hours after the time when the cover containing the same is posted".

Miss Arden for the company said that shareholders outside London were deemed to have been properly served because the circulars were posted in unsealed letter boxes on September 6. They would therefore be deemed to have arrived on September 7, giving exactly 21 days' notice of the meeting.

There was a serious question as to whether the article could be read as literally as that, and particularly whether it applied where there was such disruption to postal services that placing the circulars in a letter box could not reasonably be expected to result in delivery within 24 hours.

Some light was thrown by article 136 which provided for an alternative method of service at the company's option when "by reason of the total suspension or curtailment of postal services" the company was "unable effectively to convene a general meeting by notices sent through the post".

Miss Arden submitted that meant a case in which no post was being accepted anywhere by the Post Office, so that it would be impossible for the company to post the circulars in a letter box somewhere.

It seemed arguable that the article was not intended to operate in such limited circumstances, but contemplated that the curtailment of postal services which prevented delivery to all shareholders might have the effect of making the company unable to convene a general meeting. That would only be the case, of course, if one qualified article 135 by holding that the conclusive presumption which it contained did not apply in the event of suspension or curtailment of postal services.

It did seem arguable that in the circumstances of the postal strike, the posting of the notices could not be deemed to have been effective service on all the shareholders. Some of the shareholders might feel aggrieved if the meeting went ahead on September 30. Also, they appeared arguably to have a justifiable case in law for claiming it was not validly called.

The next question was whether the court should, in the exercise of its discretion, grant interlocutory relief.

Miss Arden said an injunction should not be granted because if the meeting was not validly summoned whatever happened would be a nullity, and Mr Bradman would be able to seek a declaration that that was the case.

From a practical point of view that would be an unfortunate position in which to leave the parties. A transaction was contemplated in which a substantial sum of money would be borrowed by the company, and substantial payments in cash would be made to persons who were in no way connected with the dispute. The possibility that it might subsequently be necessary to try to unscramble that transaction on the grounds that it was a nullity, was awesome to contemplate.

Secondly Miss Arden said that the board took the view that if the transaction was not carried through on September 30, the vendors of Lawson Price would withdraw and the company would lose the benefit of an advantageous deal.

The court viewed that statement with considerable scepticism though it was not in a position to refute it. It was entirely a matter for the vendor company. However, the suggestion that the transaction would go off suddenly was not sufficiently persuasive to warrant the refusal of relief, taking into account what might be the injustice of allowing an improperly-called meeting to proceed.

Mr Bradman was entitled to some limited relief. He brought the proceedings in a representative capacity, though whom he represented was not yet clear. Accordingly he asked that the court, in the exercise of its discretion, should place some limit on the liability he might incur under the cross-undertaking in damages. The amount he suggested was £40,000, which represented twice his investment in the company.

For the contemplated period of the order, that would be a sufficient sum. The cross-undertaking was limited accordingly.

The company was restrained until trial or further order from holding an extraordinary general meeting pursuant to the notice of September 6, or from acting on any resolution purporting to be passed at such a meeting.

For Mr Bradman: Barbara Dohmann QC and Andrew Lenon (Clifford Chance). For the company: Mary Arden QC (McKenna & Co).

Rachel Davies
Barrister

Special features enliven equity sector

THE UK equity market would have experienced a lacklustre trading session yesterday, but for significant developments on the domestic banking and market takeover fronts.

The announcement that Lloyds Bank is to pay interest on new-styled current accounts alerted analysts to a potential shift in the earnings structure throughout the banking structure. Although more limited in its market application, the decision by Lord Young, the Trade and Industry Secretary, to send Minorco's £2.9bn bid for Consolidated Gold Fields to the UK Monopolies and Mergers Commission dominated attention on the trading desks.

Account Dealing Dates

First Dealings:	Oct 17	Oct 31	Nov 14
Option Declarations:	Oct 27	Nov 10	Nov 24
Last Dealings:	Oct 28	Nov 11	Nov 25
Account Day:	Nov 7	Nov 21	Dec 5

*New time dealings may take place from 9.00 am two business days earlier.

The bid also remains the subject of an official enquiry by the Department of Trade and Industry into share and option deals ahead of Minorco's offer.

The blue chip stocks, although encouraged by a firmer trend in sterling, traded cautiously as the market closed ahead of last night's House of Commons debate on the UK economy, and the contribution from Mr Nigel Lawson, the UK Chancellor of the Exchequer. The market had been hoping for some reference by the Chancellor to a commitment to support sterling as the foreign exchange markets brace themselves for publication tomorrow of the UK trade figures for September.

Market indices moved erratically yesterday, partly influenced by wayward movements in the share price of Consolidated Gold Fields, a constituent of most equity measuring gauges. The FT-SE Index fell by eight points as Gold Fields shares plunged on news of the Monopolies referral but then rallied. An attempt to edge above the 1850 mark proved unsuccessful, however, and at the close the Footsie Index was 0.9 off at 1847.5.

Turnover fell back, with Seaq volume of 373m shares comparing with 464.5m in the previous session. Some institutional interest was seen, with Beecham and Reuter joining the bank shares in the market spotlight.

Lloyds shares eased as the market assessed the implications, and the costs, of the new current account policies. Larger losses were suffered by the some other high street banks which, it is assumed, will be forced to follow Lloyds, a major and long-awaited step for the UK banks.

Equity trading houses were also preparing for the commencement of dealings today in the £240m flotation of shares in Racal Telecommunications Group (RTG), which will start trading simultaneously in New York and London at 1.30pm UK time. The international trading houses, poised to trade both the RTG shares and their equivalent American Depositary Receipts (ADRS), caught hints yesterday that London might be a seller and New York a buyer when the first deals appear on the trading screens.

FINANCIAL TIMES STOCK INDICES

	Oct. 25	Oct. 24	Oct. 21	Oct. 20	Oct. 19	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	88.76	88.78	89.06	89.15	89.37	88.92	91.43 (18/4)	86.28 (2/8)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.49	97.70	97.75	97.75	97.62	93.19	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1500.8	1499.4	1509.3	1512.5	1513.2	1322.0	1514.7 (8/8)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	166.5	167.1	170.2	172.2	174.9	330.2	312.5 (7/1)	162.7 (22/9)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.64	4.67	4.60	4.60	4.57	4.66				
Earning Yld %(full)	11.66	11.76	11.56	11.54	11.52	11.57				
P/E Ratio(Net)(☆)	10.37	10.30	10.47	10.49	10.52	10.57				
SEAQ Bargains(5pm)	23,495	23,939	26,291	26,484	26,195	57,523				
Equity Turnover(£m)†	-	995.26	1120.80	1384.76	1393.78	1843.51				
Equity Bargains†	-	25,037	26,599	26,781	26,312	74,392				
Shares Traded (ml)†	-	416.4	414.9	452.2	519.6	778.6				

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1497.8	1496.1	1498.3	1499.1	1499.9	1500.9	1500.8	1499.5

DAY'S HIGH 1501.0 DAY'S LOW 1493.7

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974. ☆Nil 10.28 †Excluding intra-market business.

■ S.E. ACTIVITY

Indices	Oct. 24	Oct. 21
Gilt Edged Bargains	121.4	121.4
Equity Bargains	162.2	172.3
Equity Value	2011.7	2263.4
5-Day average		
Gilt Edged Bargains	114.6	116.1
Equity Bargains	174.8	179.2
Equity Value	2453.7	2456.6

■ London Report and latest Share Index: Tel. 0898 123001

Lloyds' classic play

The banks sector ran into a bout of selling pressure after the surprise announcement by Lloyds Bank that it is to introduce an interest-paying current account to be known as the "Classic". The market took the view that this would trigger similar efforts by the other majors, Barclays, NatWest and Midland.

The Classic account, which will come into operation on January 4, will pay interest at the rate of 4 per cent a year. Analysts said the Lloyds decision is a response to moves by building societies to offer widespread financial services to customers. The Abbey National Building Society last May offered its customers a 5 per cent interest-bearing current account.

Estimates of the possible cost of the move varied, but Mike Fessemeyer, banks analyst at SBCI Savory Milln, said it could cost Lloyds around £100m a year, equal to 10 per cent of pre-tax profits. Ian Shelley, banks analyst at WI Carr, said Lloyds had "the least to lose by such a move – if they follow, NatWest and Midland would be the worst affected of the big banks."

Lloyds shares fell to 322½p on the news before steadying and closing a net 6 lower at 324p on turnover of 6.3m. Barclays (7.5m shares traded) dropped 10 to 417p, NatWest (4.6m) a like amount to 561p and Midland (1.8m) 15 to 417p.

Lonrho on offer

Lonrho wilted on sustained selling from investors intent on realising recent profits and the shares dipped to 349p before rallying to close 10 down on balance at 354p. Few large deals were recorded on either the inter-broker dealer or Seaq screens, but this caused little surprise. Traders feel that Bond Corporation currently lacks the resources to increase its near-15 per cent holding.

The situation could change next week, said a dealer, if rumours of the Australian group selling its stake in Standard Chartered prove to be true. "This is just the intermission, there will be further dramas before the final curtain," he went on to say. Although activity fell short of recent heavy levels, the total number of shares traded still reached an impressive 12m shares.

Gold Fields erratic

Holders of Consolidated Gold Fields stock had little time to take evasive action as the share price moved sharply, but erratically, before closing heavily down after Lord Young sent Minorco's £2.9bn bid to the Monopolies and Mergers Commission. Minorco announced the formal lapsing of its bid, leaving open the question of whether it would make a new bid after the Commission gives its ruling, or simply abandon its interest – in market parlance, "walk away".

The action started early with Gold Fields shares jumping 45 to 1290p as the full City Takeover Panel announced its dismissal of Gold Fields' appeal for the bid to be frozen pending the outcome of the official inquiry into pre-bid dealings in the shares and options of the mining and construction group.

However, early buyers were caught out 90 minutes later by Lord Young's ruling, which surprised the market and sent the shares plunging to a closing price of £11⅝, a net 1⅛ down.

Turnover of 3.7m Gold Fields shares indicated some hurried selling which faltered as Minorco said it would make an announcement soon. The new asset valuation expected from Gold Fields now looks less likely. Also easier were Charter Consolidated (426p), in which Minorco holds 36 per cent, and Johnson Matthey (337p), 38 per cent held by Charter Consolidated.

Unilever was the stock of the day among the leaders, gaining 11 to 479p as 2.8m shares changed hands. Kleinwort Benson, the securities house which has been recommending the shares on fundamentals for several months, again drew attention to the trading premium enjoyed by the NV stock in the Netherlands, a premium which yesterday rose to a one-year high at 6.7 per cent. Institutional switching developed to exploit the premium, leading to higher than usual demand for the stock in London.

Later there were stories circulating which claimed that Unilever planned to sell at least two of its brand name subsidiaries as part of a major restructuring. Dealers commented that this rumour was "an explanation after the event".

Merchant banks included one of the day's features in Hambros which raced up 15 to 265p, still boosted by its estate agency interests and life assurance business.

Brewery stocks struggled to record a single feature. Dealers pointed out that activity in Scottish & Newcastle (401p), where turnover was an unspectacular 1.3m shares, disguised the fact that predator Elders IXL was thought to have bought at least two sizeable lines of stock.

Among slightly firmer Stores, Lowndes Queensway rose 1½ to 79p after announcing it was selling its Poundstretcher variety discount chain. Mr James Gulliver, Lowndes chairman, is said to be looking for around £60m for Poundstretcher and has not ruled out a buy-out by the current management team of Mr Stephen Fearnley and Mr Paul Appell. Sentiment was also helped by news that Lowndes had launched an interest rate hedging programme to limit the group's exposure to further rises in the cost of borrowing.

Moss Bros advanced 8 to 241p on the back of a 44 per cent rise in interim profits to £685,000. The figures benefited from the integration of the Cecil Gee chain and the closing-down sale at Moss Bros' Covent Garden headquarters. Subsequently, "the figures should not be taken as an indication of the level of improvement in the group's results for the full year," said the company.

Vivat, manufacturer of Lee Cooper jeans, slipped 3 to 102p after postponing the publication of its interim results until October 31 because of pending bid talks. The company would not reveal the name of the potential suitor(s), but dealers regard Amber Day as the most likely bidder. Alternatively, French textile group Compagnie de Navigation Mixte, which currently holds 27 per cent of Vivat, might make an offer. The French group bought much of its stake around the 160p to 180p level, which leaves it sitting on a sizeable loss, noted dealers.

GEC continued to attract plenty of attention in electronics with turnover reaching 7.8m; the shares edged up 2¼ to 170p with dealers citing keen interest on the inter-dealer broker screens.

Plessey, bolstered by a "buy" recommendation issued by Robert Fleming Securities, rose 1½ to 183½p. Racal initially slipped back to 301p, but came in for sustained buying late in the day to close a net 2 higher at 305p in front of this afternoon's market debut by Racal Telecommunications Group (RTG). Dealers are confidently expecting a useful premium when the shares begin trading; 182p is widely tipped as a likely opening level.

Pressac was a major casualty in the second liners, dropping 19 to 166p with traders discounting the good preliminary figures. Bennett & Fountain slipped 2 to 35p in the wake of the £12.4m rights which accompanied the full-year profits.

Engineering stocks continued to trade quietly, retaining their firm undertone as traders awaited the next move by the equity market. Much of the interest lay in the smaller groups. A. Cohen gained 115 to 1440p after announcing a near 50 per cent increase in first half profits, together with a favourable view on prospects from the boardroom.

Gateway rose 4 to 175p in turnover of 4.2m on news of the board changes. Dealers said there were good buyers at around the 172p level and that the confirmation of Mr Louis Sherwood as chairman and chief executive was welcome.

Beazer eased to 185p as the effects of sharply increased annual profits were annulled by concern over the outlook for the UK housing sector and lack of news regarding the disposal of surplus Koppers assets. Profit-taking halted the rise in Blue Arrow, 1½ easier at 89p, but Pilkington shone late with a rise of 7½ to 225½p; a flurry of traded options activity aroused fresh speculation of a bid from St Gobain, the French group.

Cowan de Groot jumped to 70p before settling a net 4 higher at 62p following a bid approach. Suter, also being courted by a suitor, eventually eased to 240p while Thomson T-Line lost 4 to 78p on speculation that it may be the unnamed party. Yale & Valor dipped 20 to 358p on fears that it is contemplating raising funds for a home appliance acquisition.

Gloomy mid-term results brought NMW Computers down 9 to 66p, while J S Pathology dropped 9 to a year's low of 275p. Brammer, on the other hand, advanced 8 to 254p.

Among dull Motors Lucas recovered well from an opening 9 point drop to close 4 better at 594p after a string of positive circulars provoked a flurry of late buying. Analysts at Morgan Grenfell are recommending investors to buy the stock, and have increased their forecast for 1988/9 profits to £200m.

FR Group slumped 11 to 215p after revealing disappointing interim profits of £9.8m, down 5 per cent on last year. News that a subsidiary had won a small defence contract from British Aerospace failed to inspire a rally in the shares.

UK Paper was a strong performer, rising 4 to 187p after a recommendation from Warburg Securities. Analyst Mike Murphy highlighted the company's development potential and the fact that its property assets could offset the cost of new paper plant by as much as £80m. "This means UK Paper could raise its capacity without having recourse to outside finance or an issue of stock," he said. "Demand for uncoated paper is rising steadily, while the European-wide outlook for paper companies is very good indeed."

Among agencies, Geers Gross rose strongly ahead of today's interim figures. Dealers said investors were betting on the likelihood of a dividend being paid for the first time after a string of disappointing results.

The re-assessment of BAT Industries' worth on a break-up basis attracted steady investment support. Warburg Securities estimates that the total value could be as high as 870p per share and the stock bucked the wider market yesterday, closing 2¾ higher at 489p.

M&G, the unit trust group where Australian entrepreneur Mr Alan Bond holds a stake, drew support and rose 6 to 344p.

Oil prices continued their retreat after the unproductive OPEC pricing and strategy committee meeting held in Madrid last weekend. Brent crude for December delivery lost a further 30 cents a barrel yesterday and caused widespread early falls among oil shares. After a good rally during the afternoon, most of the leaders ended the day a shade firmer on balance.

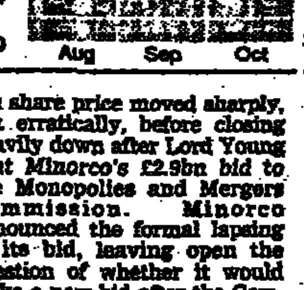
Persistently sold in recent days, Enterprise rallied to close a net 3 higher at 582p and LASMO was 3½ harder at 507½p.

Activity in traded options was raised to the relatively high level of 38,648 contracts by a revival of interest in dealings on the FT-SE 100 index contract, and by closing out of a number of positions in options on stocks which have of late been the subject of bid or re-organisation talk. Today brings the expiry of the October options in stocks such as Consolidated Gold Fields and Allied Lyons, each with heavy open interest at the start of the day.

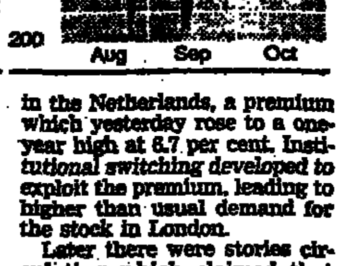
Allied Lyons attracted the greatest turnover in terms of individual stocks, with 2,630 contracts traded, against 2,482 in Gold Fields and 2,411 in Racal.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 25.

FT-A All-Share Index



Equity Shares Traded



NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (30). BRITISH FUNDS (1) Treas. 2pc IL '90, AMERICANS (6) BankAmerica, CPC Intl., Loews, Quaker Oats, RJR Nabisco Inc., Sara Lee, BANKS (2) C'tign Hbk., Wells Fargo, CHEMICALS (2) Akzo, Schering AG., STORES (1) Dunhill Hldgs., ELECTRICALS (1) Microlise Grp., ENGINEERING (6) Allen Conv. Equ., Birmid Qualcast, Carclo Eng., A. Cohen, Hawker Siddeley, SKF AB, FOODS (2) Jacob (W.& R.), Kraft Inc., INDUSTRIALS (6) ASD., Allied Part., Cowan de Grt., Johnson Cleaners, Scott Robertson, Sothebys Hlds. Inc. Class A., INSURANCE (1) Hibernian Grp., LEISURE (1) Stanley Leisure, PROPERTY (2) Bradero Props., Greps Property, SHIPPING (1) Bergesen d-y AS 'A', TRUSTS (4) Derby Tst. Inc., Overseas Inv. Tst. Wrrnts., SPLIT Inc., Sec. Alliance Tst.

NEW LOWS (32). CANADIANS (2) Echo Bay Mines, Geodome Res., BUILDINGS (1) NSM, CHEMICALS (1) Cambridge Isotope Labs., ELECTRICALS (2) Kode Int., Tunstall Grp., ENGINEERING (1) Powerscreen Intl., FOODS (2) Hughes Food, Ptarmigan Hldgs., INDUSTRIALS (6) Co. of Designers, Hodgson Hldgs., J. S. Pathology, SAC Intl., Tamaris, Whittington, NEWSPAPERS (1) Portsm'th & Sund., PAPERS (1) BBB Design Grp., PROPERTY (1) Rockfort Grp., SHIPPING (1) Lon. O'Seas Frtrs., SOUTH AFRICANS (1) Anglo Am. Ind., TRUSTS (2) Fashion & Gen., Siem Fund, OILS (3) Aberdeen Pet., Caspen Oil, Monarch Pet., PLANTATIONS (1) Grand Central, MINES (4) Simmer & Jack., Modder 'B' Gold Hldgs., Anglo-Dominion, Ennex Intl., THIRD MARKET (3) Cupid, Norton Grp., Oxceg Gold.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

APPOINTMENTS

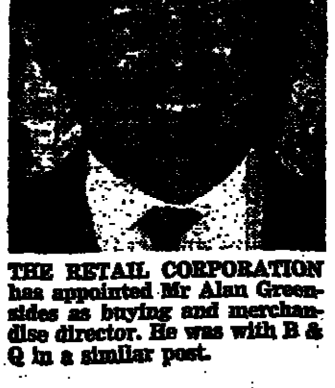
Skandia changes and promotions

■ SKANDIA LIFE ASSURANCE (HOLDINGS), UK holding subsidiary of a Swedish insurance company, has made the following appointments. Mr Mike Chapman becomes technical and marketing director, and Mr Brian Pudney administrative and corporate services director, on the board of Skandia Life Assurance Company. Mr Alan Wilson is made managing director of Skandia Financial Services, and Skandia Business Services, mortgage arm of the company. He will retain responsibility for all legal aspects of the group. Mr Vic Dodds, sales director, becomes deputy managing director of Skandia Life Assurance Company, and expands his responsibilities to include the finance division. Mr Jim Roberts, formerly finance director and company actuary of Skandia Life Assurance Company, becomes head of developments for Skandia Life Assurance (Holdings). He will be responsible for the formation of a new life assurance company, and exploitation of the European market. He remains finance director of Skandia Life Assurance (Holdings). Mr Andy Dyble is promoted to company actuary of Skandia Life Assurance Company; and Mr Derek Thomas is promoted to company secretary of Skandia Life Assurance Company, Skandia Life Assurance (Holdings), and Skandia Financial Services.

■ AVIATION & GENERAL INSURANCE COMPANY has appointed Mr R.T. Barraclough as an alternate director to Mr F.B. Corby of the Prudential Assurance, to replace Mr F.M. Simpson who has retired.

■ Mr Richard Mews and Mr Simon Mordant have been appointed directors of BZW MEARES, Barclays de Zoete Wedd's Australian operation. They were corporate finance directors with Sydney investment bank Ord Minnett.

■ NORWICH UNION has appointed two general managers. Mr R.J. Burke, executive director of the Life Society in the Republic of Ireland, and group development consultant, is to be general manager (Europe) from November 1. Mr P.O. Sheridan, assistant general manager (staff & administration) has been appointed general manager (international) from next April.



THE RETAIL CORPORATION has appointed Mr Alan Greensides as buying and merchandise director. He was with B & Q in a similar post.

■ LLEWELLYN CONSTRUCTION has appointed Mr Ken Pike and Mr Arvon Reynolds as executive directors. Mr Pike was business development manager. Mr Reynolds was contracts manager.

■ Mr Harold Musgrove has been appointed chairman of CHLORIDE's industrial battery sector, and will join the board of Chloride Group on January 1. He was chairman and chief executive of Austin Rover Group from 1982 to 1986. He has been working with Chloride as a consultant for 18 months. Mr Michael Farebrother has been appointed chairman of Chloride's new consumer and allied products sector.

■ Mr Stephen Lister has been appointed to the board of PETER BLACK HOLDINGS as finance director. He was group financial controller of John Crowther Group.

■ From January 1 Mr W.G. Niven is to be group finance director of SUN ALLIANCE INSURANCE GROUP until his retirement later in 1989. Mr Peter Quaile remains deputy chief general manager until his retirement on February 28.

■ THE BUSINESS AIRCRAFT USERS ASSOCIATION has elected Mr John Feltham as chairman - he is deputy chairman of British Car Auctions Group. Mr Alan Kirby, a director of Trusthouse Forte, becomes deputy chairman; and Mr Dermot Boyle, director (administration) of the Automobile Association, is made treasurer.

■ BROWN, SHIPLEY & CO has made the following appointments to its board: Mr Timothy Bacon, corporate finance; Mr Richard Kemp, development capital; Mr Jeremy Knight, corporate finance; Mr Alastair Lawson, lease management services; Mr Etienne Verwilghen, non-executive - he is a general manager of Kredietbank, Luxembourg.

Notice to Holders of Warrants of

Rohm Company Limited

in connection with

U.S. $70,000,000

4⅛% Guaranteed Bonds due 1993

You are hereby notified that the current Subscription Price of the Warrants has been adjusted from ¥4,456.50 to ¥4,399.60 effective from 22nd October, 1988 (Japan time) as a result of the issue of Japanese Yen 20,000,000,000 Convertible bonds due 1998 by way of a public offering in Japan on 21st October, 1988 with a conversion price of ¥3,633 per share which was less than the market price current as of 13th October, 1988 when such conversion price was fixed.

ROHM COMPANY LIMITED
21, Saiin Mizosaki,
Ukyo-ku, Kyoto City,
Kyoto 615, Japan.

26th October, 1988

By: The Daiwa Bank, Limited., London as Fiscal Agent

Notice to Holders of Warrants of

Rohm Company Limited

in conjunction with

U.S. $80,000,000

3¾% Guaranteed Bonds due 1991

You are hereby notified that the current Subscription Price of the Warrants has been adjusted from ¥3,921.70 to ¥3,871.60 effective from 22nd October, 1988 (Japan time) as a result of the issue of Japanese Yen 20,000,000,000 Convertible bonds due 1998 by way of a public offering in Japan on 21st October, 1988 with a conversion price of ¥3,633 per share which was less than the market price current as of 13th October, 1988 when such conversion price was fixed.

ROHM COMPANY LIMITED
21, Saiin Mizosaki,
Ukyo-ku, Kyoto City,
Kyoto 615, Japan.

26th October, 1988

By: The Daiwa Bank, Limited., London as Fiscal Agent

LONDON SHARE SERVICE

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS—Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LONDON SHARE SERVICE

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ∮ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ● Not comparable
- ● Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ∥ No par value

B.Fr. Belgian Francs. Fr. French Francs ●● Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	γ	71	......
Craig & Rose £1	γ	698	......
Finlay Pkg. 5p	γ	85	......
Holt (Jos) 25p	γ	£11¼	......

IRISH

Cap. 8½% Ln. 1991	£99½	......
9pc Cap Ln. 1996	£103¼	......
Fin. 13% 97/02	£123¼	......

Arnotts	γ	395	......
Carrol Inds	γ	167	+2
Grafton Grp	γ	146	......
Hall (R. & H.)		156	......
Heiton Hldgs	γ	68	......
Irish Ropes	γ	165	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	30
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	48
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property	
Brit Land	38
Land Securities	52
MEPC	52
Peachey	50

Oils	
Brit. Gas	15
Brit Petroleum	24
Burmah Oil	58
Charterhall	3
LASMO	48
Premier	7½
Shell	95
Ultramar	26

Mines	
Cons Gold	95
Lonrho	28
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

COMMODITIES AND AGRICULTURE

Slow start for UK land set-aside scheme

By Bridget Bloom, Agriculture Correspondent

BRITAIN'S PLANS to pay farmers to take arable land out of production have got off to a slow start with only some 2 per cent of the country's estimated 90,050 cereal farmers applying for the scheme in its first year.

Announcing the provisional figures for the so-called set-aside scheme in London yesterday, Mr John MacGregor, Minister of Agriculture, said that some 2,050 farmers had submitted about 150,000 acres of land to be taken out of cereal cultivation.

It was impossible at this stage to say what effect this might have on lowering production, the principal aim of the scheme, which was agreed by European Community leaders last February, Mr MacGregor said.

However, he professed himself satisfied with the response from farmers to what he described as a radical new scheme. Mr MacGregor stressed that set-aside could only be complementary to the major measures which the EC had taken to control production of food surpluses and spiralling farm budgets.

The most important of these were the "stabilisers" for the main EC commodities. Introduced last February, they effectively set production and price limits on each commodity and were already reducing surpluses to a marked degree, Mr MacGregor said. The butter mountain, for example, had been reduced by 74 per cent, while cereal surpluses were 66 per cent less than they were.

Britain was among the first of the 12 EC member states to prepare its voluntary set-aside scheme. Only Denmark has so far failed to submit its plans to the European Commission in Brussels, but the UK, Germany, the Netherlands and Belgium are the only countries to have launched fully-fledged schemes.

Preliminary figures from Bonn suggest that some 9,000 German farmers have so far agreed to set aside about 90,000 hectares (220,000 acres). About half the land submitted has come from Lower Saxony, where farmers have participated over the last two years in the EC's only pilot set-aside project.

Yesterday Mr MacGregor said that nearly half the UK applications had come from East Anglia and the South East, Britain's principal cereal growing areas. It would be several months before it was possible to say whether farmers had submitted only marginal land, the minimum 20 per cent of their acreage or whole farms, he said.

Mr MacGregor attributed the slow response of farmers' partly to innate caution and partly to a perception that prospects for cereals might be less gloomy following the US drought than seemed likely only a few months ago. He noted, however, that 24,000 additional British cereal farmers had registered their cereal acreage this year, which could allow them to apply for set-aside in subsequent years.

The EC's set-aside scheme has been widely criticised, not only on the grounds that farmers are "being paid to do nothing" but on its suitability as a measure for controlling production.

Britain's National Farmers' Union, for example, believes that the scheme should be compulsory, perhaps linked, as much larger schemes have been in the US, to the payment of government farm support.

On the other hand, the main French farmers' union, the FNSEA, afraid that whole farms might be abandoned in already de-populated rural areas, has insisted that farmers may set aside no more than a third of their farms, a condition supported by the French Government.

Critics of set-aside say that even with a fairly substantial take-up by farmers, the effect on production would be small since farmers inevitably submit their least productive land for set-aside and may well increase production on what remains.

On the assumption that the 150,000 acres set aside in Britain yielded some two tonnes of cereal an acre, current production of some 21.5m tonnes would be cut by 1.4 per cent. EC production of cereals has varied between 150m and 170m tonnes over the past few years.

Member states have been free to vary the levels of set-aside payments to farmers within a range laid down by Brussels. Britain, paying up to £80 an acre (Ecu 300 a hectare) is in the middle of the range. Mr MacGregor estimated the cost this year at some £11m, of which about 50 per cent would come from the national farm budget and the remainder from Brussels.

Caribbean countries on locust alert

Canute James on another problem brought by Hurricane Joan

THE GOVERNMENT of the island of Dominica (not to be confused with the Dominican Republic) has ordered an immediate halt to bird hunting. The ban, announced by the Forestry Division of the Agriculture Ministry, has nothing to do with concern for the birds' welfare, however.

"It has been observed that the birds have been feeding on locusts which have appeared in the island recently," explained Mr Felix Gregoire of the ministry.

Birds, chemicals and the Caribbean environment can play a part in containing and perhaps eliminating the swarms of African desert locusts which arrived in the eastern Caribbean just under a fortnight ago, according to regional and international experts who have been studying the invasion.

At first the locusts were thought to be a less harmful type from South America, but they are now confirmed to be of the type which has devastated agriculture in the Sudan and Ethiopia recently, and which have been the bane of African agriculture for centuries.

The pests hitched a ride from just off the Cape Verde Islands on the winds of a storm which arrived in the Caribbean as Hurricane Joan. They made landfall along the length of the east Caribbean archipelago and have been found as far south as the north-east shoulder of South America.

"We have been tracking a swarm that earlier this month had blown off-course from Africa towards the Cape Verde Islands, and we tracked it to about 1,500 miles away from French Guiana," explained Mr Frederick Zenny, the UN Food and Agriculture Organisation's regional director for the eastern Caribbean. An official of the FAO office in Rome suggested that the locusts now in the Caribbean came originally from Mauritania, Senegal and Guinea-Bissau.

The length of the trans-atlantic journey is also a factor which Caribbean Governments are hoping will contain the swarms. Mr Zenny said many of the insects were in a state of stress from the distance they had travelled.

With proof that the pests are the desert locusts from Africa, there are fears for two crops which form the backbone of the economy in several countries. The locusts came ashore in some of the Windward Islands which account for about two thirds of Britain's banana imports. The fears of a spread of the pests are being shared by countries such as Barbados, Jamaica, the Dominican Republic and Cuba, all of which depend to varying degrees on sugar cane.

Plant protection officers in the region are also worried for the future of coffee farms in the Dominican Republic, Jamaica and Cuba.

But a study by the US Agency for International Development concluded that the threat from the locusts can be contained by natural factors.

It said that for the locusts, the Caribbean environment was "inhospitable," and that the pests would be set upon by natural predators such as cattle egrets and other birds. The region's saline soils will destroy locust eggs and the current rainy season will reduce the chances of widespread reproduction, according to the US study.

The Food and Agriculture Organisation dispatched experts to the Caribbean to study the invading locusts and to recommend the best methods of dealing with the pests.

"We have a bit of luck because the experts say these insects are sexually immature and will need another three weeks or so to reach sexual maturity," said Mr Zenny. "Part of the good news is that blackbirds and egrets have gone after the locusts."

Despite this help from the birds and the Caribbean environment, several governments in the region have started using pesticides to deal with the locusts. Agricultural officers in St Vincent are roaming areas of the island in which the locusts are concentrated. Mr Calvin Nicholls, the island's deputy agricultural officer, said aerial spraying would be considered in the higher, forested areas. He said that unless they were destroyed in the shortest possible time, they would begin to reproduce.

The St Vincent Government reported a high rate of mortality among the locusts following the use of chemicals, but that some of the insects had moved off the coastal areas and into the island's interior.

Despite all the hazards facing the invaders there is growing disquiet in other parts of the Caribbean. Agriculture officials in Cuba and the Dominican Republic, where the national economy depends heavily on sugar, are studying their coastlines for signs of the insects, and preparing to attack them with chemicals.

"Low prices and cutbacks in US imports have damaged our sugar industry," said one government official in the Dominican Republic. "But the locusts will ensure its death if they establish colonies here."

Mr Walter Van Wharvin, director of research and development in the Ministry of Agriculture in Jamaica, a close neighbour of both Cuba and the Dominican Republic, reported that the Jamaican Government was on the lookout for locusts, particularly at ports and airports. "We will get the pest at some time in the future if it establishes itself in the eastern Caribbean," Mr Van Wharvin said.

Britain to end wool price guarantee

By Bridget Bloom

THE BRITISH Government is to end arrangements under which it guarantees a fixed price for wool to British sheep farmers.

Mr John MacGregor, Minister of Agriculture, said in answer to a parliamentary question this week that guaranteed prices for wool would continue to be paid by the Government for 1989 and 1990 but not for 1991.

The precise conditions which will apply when the guarantee ends will be discussed over the next two years with the British Wool Marketing Board, the statutory body responsible for collecting, preparing and marketing all British wool.

However, Mr Alun Evans, Chairman of the Marketing Board, said yesterday that it was likely that market prices would then prevail.

Mr MacGregor's announcement was not unexpected, because the Government is well known to favour the greater play of market forces in the marketing of agricultural produce. It recently announced that funds would not be provided to the Potato Marketing Board after 1991.

However, in the case of the wool, Mr MacGregor has made it clear that the board's marketing and collection obligations will continue, a decision which has been welcomed by the National Farmers' Union.

The NFU said yesterday that the decision indicated that the Government had "judged the future of the Wool Board on its merits and not allowed any pre-conceived antipathies towards marketing boards to determine its decision."

Currently prices for wool are some 10p a kilogram above the guaranteed price of 129p on a firm market. The Board operates a stabilisation fund with a current deficit of some £18m which is expected to decline to around £13m at the end of the present year and possibly to £10m in the following year.

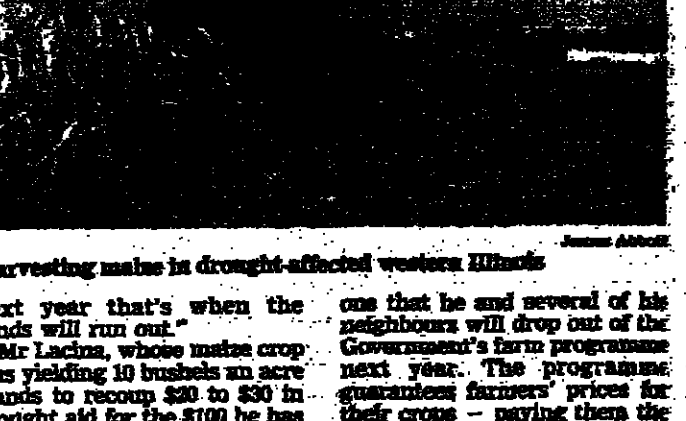
It is expected that the Government will write off any debts outstanding in this fund as part of the new arrangements.

Last year Britain produced 48m kg of fleece wool and some 14m kg of skin wool, or about 2 per cent of world production.

Production of wool has increased by nearly 40 per cent over the last ten years, partly as a result of the EC's sheepmeat regime under which British lamb producers get guaranteed weekly prices for lambs sold for slaughter. These arrangements are likely to end within the next four years as part of the reform of the European Community's common agricultural policy.

Picking up the pieces on the US cornbelt

Deborah Hargreaves on the aftermath of the worst drought to hit Midwest farmers this century



James Abbott

Harvesting maize in drought-affected western Illinois

THE VIEW from the cab of a combine harvester chugging through the dry corn fields of rural Illinois is a depressing one this year. Patches of the brown, shrunken maize bear no cobs and the combine slices through at double its normal speed.

As Mr Ralph Winkler manoeuvres his huge machine through rows of maize on his western Illinois farm, he points to tangles of weed and burrs that have moved in amongst some of his sick plants.

"Nothing makes sense this year," he says, "there's no pattern to the damage." At one end of his field, the corn hopper is filling with a steady stream of golden kernels, but as the combine moves into a meagre patch, the hopper remains empty.

Farmers across the cornbelt are harvesting less than half their crop after the worst drought to hit the US Midwest this century devastated yields. Many family farmers face a large drop in income which will be only partly compensated under President Reagan's drought relief package.

Mr Bob Hutcheson, who farms 440 acres in DeKalb County – 100 miles west of Chicago – sees a wide range in the quality of his maize. Parts of his fields are yielding 100 bushels per acre, while in other parts he is down to 30. In a normal year, his yield is regularly at 160 bushels an acre.

Mr Hutcheson, who feeds part of his maize to his 800 pigs and 100 sheep, was forced to sell several of his sows and many breeding ewes in this summer's drought to raise the cash to feed the rest. His hay crop fell to 10 bales per acre from the usual 50 to 60 bales.

"I was baling anything I could get hold of – including the grass walkways and paths around the farm," he recalls. On Mr Hutcheson's farm, he usually stops feeding hay in May, but as his pasture shrivelled in this summer's heatwave, he was forced to feed as many as 10 bales a day throughout the summer. When he ran out his neighbours clubbed together and gave him several hundred bales.

Mr Hutcheson is representative of a whole swathe of farmers across the Midwest who will be gaining less than half their normal income this year as higher commodity prices and the aid included in the unwieldy Drought Relief Bill fail to make up fully for the drought's ravages.

"At the moment I'm emptying my corn (maize) bins from last year," says Mr Steve Lacina, who owns a 500-acre mixed farm near Iowa City in Iowa. "When I get to this stage next year that's when the funds will run out."

Mr Lacina, whose maize crop was yielding 10 bushels an acre stands to recoup $20 to $30 in drought aid for the $100 he has invested in each acre.

Farm lobby groups have estimated that the drought could be the final straw for many marginal farmers. Bankruptcies in Iowa could rise 25 per cent next year, according to the American Agriculture Movement. However, the full effects of this year's losses at the farm gate will not be felt until the beginning of next year, when many annual loan payments fall due.

Another wave of losses amongst farmers will hit rural economies, where adjustments off the farm have often been harder than those on it. Mr Hutcheson remembers how long it took farmers to get back on their feet again after a drought in 1983, which was not as severe as this year's.

Last year, Mr Hutcheson had just mustered enough cash to buy a new loader tractor to replace his 26 year-old machine. He had to sign up for it last November as the shake-out amongst farm machinery suppliers has been so intense that the equipment firms are often only producing to order.

By the time Mr Hutcheson's tractor was delivered in March, he was looking forward to a bumper year. "As things played out in the summer, I wished I'd never had the thing," he says. Now he is unsure of how he will meet the payments for it.

However, just as the dry weather has had widely varying effects on crops, so the drought's ravages have hit farmers differently. Some better-off farmers who have weathered the drought are optimistic about next year's prospects – pinning their hopes on a good year, buoyed by higher commodity prices.

Mr Allan Aves, another farmer in DeKalb County, reckons that he and several of his neighbours will drop out of the Government's farm programme next year. The programme guarantees farmers' prices for their crops – paying them the difference between the market price and a pre-set target level – but it also limits their flexibility on how much they grow.

With commodity prices at their highest levels since 198[illegible] and stocks depressed by the drought, some farmers feel encouraged to leave the programme and produce as much as they can while the high prices last, Mr Aves believes. This will cut the cost of the Government's Farm Bill, but could lead to a flood of supply that will again depress prices.

The drought has pushed US farm supplies to their lowest levels since the early 1980s and they are set to shrink even further as export demand for maize and wheat continues to be strong.

Mr Winkler's local grain elevator in Alexis, Illinois, is planning to sell maize this winter that it has had in storage since 1981. The elevator, which has the capacity to hold 8m bushels of grain, had to build a temporary store, which is covered with a tarpaulin, to hold the glut of maize it has stored over the last few years.

The US Department of Agriculture has estimated that maize stocks will be at 1.4bn bushels by the end of the year – still supply enough for half a year, but a quarter of last year's level. Wheat stocks have more than halved to an expected 538m bushels and soyabean stocks are down to 138m bushels.

As farmers rush to complete the harvest, they are hoping for a wet winter that will replenish some of their ground reserves of water. What they dread is that next year will be another dry one.

"At least this year was election year and we got some aid," says Mr Winkler, "next year, we'll be on our own."

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices rallied in afternoon trading on the LME after earlier losses, and by the close cash metal was £39.50 ahead at £1,872 a tonne while three-month metal was slightly down. The recovery followed a steadier than expected trend on New York. News that Peru's Centromin had declared force majeure on shipments of refined metals and concentrates was a background factor, but this was not a surprise, dealers said. The news from Peru, where miners are on strike, also helped zinc prices, which behaved similarly to copper through the day, closing well above the lows but below Monday's levels. Coffee prices were firmer, boosted mainly by New York's stronger opening. Dealers said there is not likely to be an ICO quota increase today as the average indicator price will almost certainly be below 114.40 cents a lb.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$10.17-0.27x	-0.18
Brent Blend	$12.04-2.10z	-0.195
W.T.I. (1 pm est)	$13.22-3.25z	-0.03

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$180-183	
Gas Oil	$112-113	
Heavy Fuel Oil	$55-57	
Naphtha	$128-130	

Petroleum Argus Estimates

Other		+ or -
Gold (per troy oz)♣	$407.25	+1.50
Silver (per troy oz)♣	625c	+3
Platinum (per troy oz)	$530.50	+3.50
Palladium (per troy oz)	$123.00	+1.50
Aluminium (free market)	$2465	-60
Copper (US Producer)	150⅝-154c	
Lead (US Producer)	40c	+0.5
Nickel (free market)	520c	-5
Tin (European free market)	£4182.5	-87.5
Tin (Kuala Lumpur market)	19.52r	-0.18
Tin (New York)	341.50c	-2.25
Zinc (Euro. Prod. Price)	$1437.50	
Zinc (US Prime Western)	70⅞c	
Cattle (live weight)†	108.02p	-0.63*
Sheep (dead weight)†	149.77p	+10.1*
Pigs (live weight)†	70.99p	-2.21*
London daily sugar (raw)	$276.2w	+1.2
London daily sugar (white)	$276.0w	+2.0
Tate and Lyle export price	£267.5	+1.0
Barley (English feed)	£109.5z	-0.5
Maize (US No. 3 yellow)	£125.0v	-0.5
Wheat (US Dark Northern)	£117.75w	-0.50
Rubber (spot)♥	57.50p	-1.75
Rubber (Nov)♥	64.75p	-0.25
Rubber (Dec)♥	65.25p	-0.25
Rubber (KL RSS No 1 Nov)	280.5m	-5.5
Coconut oil (Philippines)§	$570w	+10
Palm Oil (Malaysian)§	$432.5u	-2.5
Copra (Philippines)§	$370	-5
Soyabeans (US)	$185	-1
Cotton "A" Index	59.05c	+0.40
Woottops (64s Super)	550p	

£ a tonne unless otherwise stated p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov x-Dec. w-Nov/Dec. v-Oct/Dec. u-Oct/Nov †Meat Commission average fatstock prices * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Dec	812	825	835 808
Mar	809	814	823 798
May	811	814	824 802
Jul	822	826	835 815
Sep	836	839	846 830
Dec	876	875	883 865
Mar	890	890	892 885

Turnover: 6153 (3618) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 24: 1031.48 (1013.93):10 day average for Oct 25: 995.25 (993.51).

COFFEE £/tonne

	Close	Previous	High/Low
Nov	1140	1134	1138 1123
Jan	1137	1134	1138 1123
Mar	1141	1135	1143 1126
May	1141	1137	1140 1130
Jly	1146	1142	1145 1136
Sep	1150	1143	1137

Turnover: 2023 (2418) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct 24: Comp. daily 114.06 (114.29); . 15 day average 113.66 (113.90).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Dec	238.00	245.00	244.00
Mar	230.80	234.60	235.00 230.20
May	224.60	229.00	229.20 224.40
Aug	220.20	224.20	224.00 220.00
Oct	218.00	221.00	221.40 219.00
Mar	216.00		215.00

White	Close	Previous	High/Low
Dec	274.00	278.00	275.00 274.00
Mar	263.00	266.00	266.00 262.00
May	260.50	263.50	264.00 260.50
Aug	260.50	263.00	262.50 262.50
Dec	260.00		255.00
Mar	259.00	261.50	262.00 255.00

Turnover: Raw 3403 (3865) lots of 50 tonnes. White 1599 (662).
Paris- White (FFr per tonne): Dec 1700, Mar 1620, May 1610, Aug 1615, Oct 1615, Dec 1615

GAS OIL $/tonne

	Close	Previous	High/Low
Nov	113.00	112.50	113.75 109.75
Dec	114.75	114.00	115.50 111.75
Jan	116.00	115.50	117.25 113.50
Feb	115.75	115.50	117.00 113.25
Mar	112.50	113.00	112.50 110.50
Apr	113.00	113.25	113.00 108.50
May	113.00	112.75	113.00 111.75

Turnover 6728 (6703) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Nov	106.40	105.90	106.40 106.00
Jan	110.60	109.75	110.60 108.40
Mar	113.65	112.70	113.85 113.00
Sep	103.80		104.00 103.80
Nov	106.00		106.00

Barley	Close	Previous	High/Low
Nov	103.90	104.10	104.00 103.65
Jan	107.80	107.90	107.80 107.60
Mar	110.50	110.45	110.60 110.35
May	112.25	112.05	112.25

Turnover: Wheat 162 (261) . Barley 214 (160) . Turnover lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 11,125 tonne
Cash	2470-80	2470-80	2480	2460-70		
3 months	2315-20	2295-300	2325/2258	2290-2	2315-20	17,502 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 6,175 tonne
Cash	1370-80	1335-45	1390/1380	1390-5		
Dec. 21	1290-90	1250-60	1305/1295	1304-5		27,194 lots
Copper, Grade A (£ per tonne)						Ring turnover 47,150 tonne
Cash	1870-4	1830-5	1865/1765	1795-7		
3 months	1673-5	1675-6	1680/1618	1630-1	1679-80	62,169 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1770-80	1715-25		1680-700		
Jan. 4	1660-70	1665-75		1620-30		33 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	619-22	616-7		622-3		
3 months	632-5	629-31		635-6		437 lots
Lead (£ per tonne)						Ring turnover 6,925 tonne
Cash	375-7	378-9	375/373	374-5		
3 months	378-9	379.5-80	380/375	376.5-7	379-80	10,129 lots
Nickel ($ per tonne)						Ring turnover 1,398 tonne
Cash	11600-800	11600-50	11600/11400	11500-50		
3 months	10650-800	10700-50	10700/10500	10550-600	10700-800	5,719 lots
Zinc ($ per tonne)						Ring turnover 13,025 tonne
Cash	1590-600	1607-12	1575/1570	1570-5		
3 months	1465-70	1480-2	1490/1440	1447-50	1480-5	15,580 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	57.0	58.0	56.0
Apr	95.2	95.5	96.8 94.7
Nov	80.0		80.0

Turnover 136 (100) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Dec	167.00	169.00	167.50 167.00
Feb	173.00	171.50	173.00 172.00
Apr	173.00	171.00	173.00 171.00
Jun	164.50		164.50 163.00

Turnover 794 (681) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Oct	1374	1380	1380 1370
Nov	1448	1460	1450 1443
Jan	1490	1496	1495 1488
Apr	1527	1534	1534 1523
Jul	1324	1337	1330 1324
BFI	1363	1361	

Turnover 338 (440)

JUTE
C and f Dundee BTC $470, BWC $480, BTD $420, BWD $430, c and f Antwerp BTC $456, BWC $445, BWD $405, BTD $415.

COTTON
Liverpool- Spot and shipment sales for the week ended October 21 amounted to 1,221 tonnes against 226 tonnes in the previous week. Trading was very good with interest mainly in west African and Turkish goods.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	407-407½	232-232½
Opening	405¾-406¼	232-232½
Morning fix	406.60	232.436
Afternoon fix	407.65	232.385
Day's high	407½-408	
Day's low	405¾-406¼	

Coins	$ price	£ equivalent
Mapleleaf	418-424	238½-241½
Britannia	418-424	238½-241½
US Eagle	418-424	238½-241½
Angel	416-421	238¾-239½
Krugerrand	406-409	231½-233½
New Sov.	95¾-96¾	54½-55¼
Old Sov.	95¾-96¾	54½-55¼
Noble Plat	542.80-549.10	310.05-314.15

Silver fix	p/fine oz	US cts equiv
Spot	356.50	623.50
3 months	367.20	636.90
6 months	377.80	650.30
12 months	398.35	678.20

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
2300	186	186	12	151
2400	93	141	39	205
2500	43	106	89	268
Copper (Grade A)	**Calls**		**Puts**	
2900	341	242	6	202
3000	252	197	16	255
3200	110	127	74	381

US MARKETS

A SLIGHT RECOVERY in the crude oil market helped keep metal prices firm, reports Drexel Burnham Lambert. Gold and silver trading featured mostly local activity. Commission house buying in platinum sent prices up $8. Copper trading was hectic as profit-taking pushed prices down over 200 in the early part of the session. Locals then became aggressive buyers as the December contract closed up 115 points. In the softs, sugar fell 21 in the March as fund and local selling was seen when prices failed to break the 1040 level. Cocoa prices declined over 40 points as yesterdays rally seemed overdone. Switch activity was again featured. Speculative buying in coffee pushed prices higher in light volume. The meat markets were dominated by local traders. Profit-taking in the pork bellies eased further rallies there. The grain markets also had light volume. Soyabeans lost 4 cents as a lack of demand was noted. Wheat prices were down over 11 despite overseas buying reported. Cotton trading was choppy as trade and commission houses rallied the market early but local traders became sellers.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	406.4	405.8	408.0	407.0
Nov	407.3	406.7	0	0
Dec	409.4	408.8	410.8	409.0
Feb	414.5	413.9	416.0	414.1
Apr	419.8	419.1	421.0	419.2
Jun	425.0	424.3	425.8	424.8
Aug	430.5	429.8	430.5	430.5
Oct	436.0	435.3	436.0	436.0
Dec	441.5	440.9	441.5	441.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	536.3	528.2	539.0	531.0
Jan	535.3	527.2	537.5	529.5
Apr	537.0	529.6	536.5	533.0
Jul	541.8	534.9	540.5	538.0
Oct	547.3	540.9	549.0	545.5

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	622.1	619.7	0	0
Nov	623.4	621.1	0	0
Dec	627.8	625.5	631.9	626.5
Jan	632.7	630.4	632.0	632.0
Mar	642.4	640.1	646.5	641.5
May	652.0	649.7	656.0	651.5
Jul	662.2	659.9	665.0	663.5
Sep	672.1	669.8	0	0
Dec	687.3	685.0	692.0	689.0
Jan	692.1	689.8	0	0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	139.40	141.40	141.00	139.10
Nov	136.40	138.00	0	0
Dec	134.40	133.25	137.50	130.50
Jan	128.40	127.25	132.00	130.00
Mar	115.40	114.10	117.25	112.00
May	110.00	108.70	111.80	107.00
Jul	105.70	104.20	105.00	104.00
Sep	103.70	102.20	0	0
Dec	101.70	100.20	101.50	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Dec	13.34	13.17	13.35	13.10
Jan	13.32	13.36	13.34	13.15
Feb	13.39	13.36	13.42	13.20
Mar	13.45	13.41	13.48	13.32
Apr	13.50	13.47	13.50	13.44
May	13.54	13.54	13.59	13.54
Jun	13.75	13.61	13.75	13.63
Sep	13.80	13.82	13.80	13.80

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Nov	4065	3990	4065	4000
Dec	4140	4142	4140	4070
Feb	4180	4179	4180	4115
Mar	4010	3984	4010	3965
Apr	3830	3784	3830	3780
May	3725	3690	3725	3700
Jun	3680	3639	3680	3680

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1318	1362	1367	1315
Mar	1289	1333	1322	1286
May	1305	1342	1329	1305
Jul	1325	1355	1337	1330
Sep	1345	1378	1380	1354
Dec	1375	1419	1398	1376
Mar	1405	1448	1430	1420

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	126.71	125.06	126.75	125.20
Mar	127.78	126.38	127.80	126.30
May	127.54	126.28	127.40	126.50
Jul	127.36	126.45	127.25	126.60
Sep	126.65	125.43	126.00	126.00
Dec	125.74	124.99	125.98	125.98
Mar	126.25	125.49	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	9.88	10.07	0	0
Mar	10.15	10.36	10.38	10.15
May	9.87	10.13	10.09	9.86
Jul	9.73	9.97	9.89	9.73
Oct	9.62	9.82	9.81	9.61
Jan	8.65	8.80	0	0
Mar	9.35	9.63	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	56.15	56.43	57.65	55.70
Mar	56.35	56.33	57.60	56.80
May	56.30	56.36	57.80	55.78
Jul	56.30	56.10	57.75	56.00
Oct	56.82	56.61	57.89	56.70
Dec	56.76	56.60	58.00	56.60
Mar	57.06	56.85	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	189.80	190.00	189.75	188.70
Jan	174.55	175.35	175.65	174.55
Mar	171.25	171.50	171.50	171.00
May	169.75	170.50	170.50	170.50
Jul	167.50	169.50	169.25	169.25
Nov	165.55	166.00	165.50	166.50
Jan	163.55	163.00	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Oct 24	Oct 21	mnth ago	yr ago
1906.9	1891.5	1859.5	1640.1

DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	134.35	134.70	132.70	128.67
Futures	138.86	139.25	133.67	127.67

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	761/4	765/4	770/4	759/4
Jan	776/4	780/4	785/0	775/0
Mar	782/6	789/4	795/4	785/4
May	789/0	792/6	798/0	789/4
Jul	786/0	790/4	795/4	787/0
Aug	780/0	782/4	787/0	780/6
Sep	740/4	744/0	747/6	740/4
Nov	717/4	717/4	720/0	716/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	23.13	23.42	23.60	23.10
Jan	23.48	23.70	23.86	23.37
Mar	23.91	24.25	24.59	23.88
May	24.30	24.62	24.78	24.30
Jul	24.50	24.75	24.95	24.45
Aug	24.40	24.76	24.95	24.48
Sep	24.50	24.82	24.90	24.40
Oct	24.10	24.35	24.30	24.05
Dec	23.95	24.19	24.00	23.95

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	246.3	245.2	248.0	246.8
Jan	246.7	245.2	248.2	245.5
Mar	245.4	245.2	248.2	246.0
May	242.2	243.2	245.6	242.0
Jul	238.0	241.2	242.6	238.5
Aug	235.0	235.5	238.0	235.0
Sep	228.5	230.0	230.0	228.0
Oct	218.5	218.0	219.0	218.8
Dec	214.5	216.0	217.0	214.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	274/6	277/4	279/4	274/4
Mar	279/2	282/2	284/0	279/0
May	280/4	284/6	285/0	280/2
Jul	279/6	283/2	285/0	279/4
Sep	265/6	269/2	269/0	265/4
Dec	254/4	258/2	258/0	254/2
Mar	260/4	265/4	262/4	260/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	407/4	418/6	420/4	406/6
Mar	413/0	423/6	425/4	412/0
May	400/0	404/6	407/0	400/0
Jul	366/2	367/2	369/2	366/0
Sep	371/0	372/0	374/4	371/6
Dec	378/0	379/0	380/0	378/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	74.75	74.85	75.22	74.70
Feb	75.12	75.22	75.80	75.05
Apr	75.87	76.22	76.47	75.85
Jun	74.30	74.47	74.80	74.17
Aug	71.90	71.95	72.15	71.70
Sep	71.90	71.90	0	0
Oct	70.90	70.97	71.10	70.80

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	42.12	42.25	42.70	42.05
Feb	45.80	46.25	46.70	45.60
Apr	44.87	44.95	45.30	44.60
Jun	48.80	49.25	49.35	48.80
Jul	49.25	49.27	49.80	49.25
Aug	48.40	48.42	48.70	48.40
Oct	45.90	45.55	46.30	45.60

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.50	51.25	52.25	50.80
Mar	51.57	51.37	52.75	51.40
May	53.77	53.52	54.25	52.85
Jul	53.96	54.10	55.20	53.80
Aug	53.25	52.50	53.25	52.20

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | SINGAPORE

CANADA

TORONTO

2pm prices October 25

INDICES

NEW YORK — DOW JONES

	Oct 24	Oct 21	Oct 20	Oct 19	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2170.34	2183.50	2181.19	2137.27	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	90.00	90.03	89.93	89.96	91.25 (3/3)	86.12 (4/1)	–	–
Transport	933.84	937.35	935.01	918.91	937.35 (21/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	185.57	186.70	186.34	183.74	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2195.06 (2193.28) Low 2162.16 (2152.56)

STANDARD AND POOR'S	Oct 24	Oct 21	Oct 20	Oct 19	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	282.28	283.66	282.88	276.97	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	327.53	326.84	326.07	318.81	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	26.20	26.48	26.42	25.96	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	158.85	159.42	159.01	156.18	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	304.95	306.07	306.37	304.48	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	387.25	388.59	388.62	385.76	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Oct 21	Oct 14	Oct 7	year ago (approx.)
Dow Industrial Div. Yield	3.54	3.63	3.60	3.54
	Oct 19	Oct 12	Oct 5	year ago (approx.)
S & P Industrial div. yield	3.12	3.15	3.18	2.97
S & P P/E ratio	13.42	13.15	13.13	18.25

TRADING ACTIVITY † Volume (Millions)	Oct 24	Oct 21	Oct 20
New York	170.590	195.410	189.580
Amex	9.010	9.441	8.961
OTC	109.628	138.722	132.677

NEW YORK	Oct 24	Oct 21	Oct 20
Issues Traded	1,959	1,952	1,965
Rises	593	747	1,051
Falls	863	679	418
Unchanged	503	526	496
New Highs	74	74	65
New Lows	21	12	13

CANADA

TORONTO	Oct 24	Oct 21	Oct 20	Oct 19	1988 High	1988 Low
Metals & Minerals	2947.7	2948.1	2935.3	2917.7	3226.5 (5/7)	2238.7 (8/2)
Composite	3411.6	3416.8	3405.1	3380.0	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1706.62	1706.34	1696.42	1681.54	1723.71 (5/7)	1305.06 (27/1)

	Oct. 25	Oct. 24	Oct. 21	Oct. 20	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1580.6	1587.4	1595.3	1591.1	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	737.1	744.5	753.1	753.2	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	218.0	219.4	219.5	219.4	219.50 (21/10)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5337.32	5338.60	5332.20	5327.10	5340.00(11/10)	3608.35(4/1)
DENMARK						
Copenhagen SE (3/1/83)	241.90	241.21	239.95	238.43	241.90 (25/10)	180.68 (4/1)
FINLAND						
Unitas General (1975)	714.7	709.1	703.9	701.6	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	388.5	387.5	389.1	382.6	389.1(21/10)	251.3 (29/1)
Ind. Tendance(31/12/87)	151.0	150.0	149.9	148.1	151.0 (25/10)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	530.94	530.13	534.31	530.59	538.27 (19/10)	396.40 (29/1)
Commerzbank (1/12/53)	1607.90	1605.50	1616.80	1606.50	1631.00(19/10)	1207.9 (29/1)
DAX (30/12/87)	1293.72	1281.22	1289.72	1295.21	1304.37 (19/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2584.53	2562.46	2581.69	2584.04	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	582.44	590.84	590.97	592.69	592.69 (20/10)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27421.49	27281.54	27401.42	27390.55	28423.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2120.78	2111.24	2126.56	2123.90	2253.10 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	282.4	281.2	281.0	280.1	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	246.8	246.9	247.4	247.9	248.4 (19/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	401.17	399.58	401.81	398.53	423.64 (21/7)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1056.69	1044.47	1038.42	1022.33	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1297.0♦	1294.0	1326.0	1352.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1801.0♦	1806.0	1806.0	1808.0	1821.0 (18/10)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	291.49	291.86	287.52	284.20	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3217.70	3208.50	3194.12	3169.43	3217.70 (25/10)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	578.5	579.0	582.3	577.4	582.3 (21/10)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	468.1	471.0	468.8	471.0 (21/10)	401.0 (21/1)

**Saturday Oct. 22: Japan Nikkei 27,338.57 and TSE 2,118.91

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Nabisco RJR	8,792,700	84	+ 7¼
Kraft Inc	7,815,200	102	+ 10
BankAmer	4,926,600	18⅛	+ ⅛
Chase Man	2,950,900	30⅛	+ ⅛
W. Point Pep	2,913,400	50	+ 4⅝
Phillips Pet	2,138,400	21⅛	+ ½
Marion Lab	2,045,000	19⅝	+ 1½
Union Carb	1,779,200	27⅝	– ½
Maytag	1,770,800	23⅛	– 2⅝
Chicago Pac	1,612,400	56⅝	+ 13⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 25 October 1988

	Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	148.2m	880	+32
Nippon Steel	101.4m	812	+25
Kawasaki Heavy Ind	98.8m	798	+41
Kobe Steel	83.4m	700	+32
Osaka Gas	69.5m	829	+31
Nippon Mining	48.7m	746	+15
NKK	39.8m	811	+29
Mitsui OSK Lines	36.9m	665	+37
Sumitomo Metal	36.7m	734	+17
Hitachi Zosen	29.8m	833	+16

3pm prices October 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
		– A – A – A –								
[illegible]	[illegible]	AAR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

AMEX COMPOSITE PRICES

2pm prices October 25

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 3pm prices October 25

[illegible]

AMERICA

Bid rumours lift turnover but Dow remains static

Wall Street

TRADING was active in the morning session yesterday but equities moved sideways, in the absence of any fresh takeover news and pending today's release of data on third quarter US gross national product, *writes Janet Bush in New York.*

At 2pm, the Dow Jones Industrial Average stood almost unchanged from Monday's close, down 0.18 points at 2,170.16. About 91m shares had changed hands by midsession.

The overall lack of change in the Dow index masked some substantial movements in individual stock prices as unsubstantiated rumours flashed around the market about possible takeover bids.

Companies which have received bid proposals in the past week were among the most actively traded stocks, including Kraft, which is defending itself against a $90 a share offer from Philip Morris, and RJR Nabisco, which is subject to a proposed management buy-out as well as a rival bid from buy-out specialist Kohlberg Kravis Roberts.

There was also a deluge of earnings announcements as the third quarter reporting season drew to a close.

Apart from takeovers and results, little of substance was going on to influence the overall direction of trading. The bond market was quiet and little changed from Monday's closing levels and foreign exchange trading was subdued.

The consensus forecast for today's GNP release is of an annualised growth rate of 3.2 per cent in the third quarter with a 4.4 per increase in the GNP implicit price deflator.

Yesterday saw the release of US durable goods orders for September which showed a larger-than-expected fall of 4.1 per cent. Orders were down 3.5 per cent excluding defence and only 1.7 per cent lower when transportation orders are stripped out. The numbers had little overall effect either on equities or bonds.

The market's accent on prospective takeovers and the domination of volume by targeted companies is obscuring any real trend. If anything, there is some discomfort that the market is receiving a boost from takeover stocks when a little selling to consolidate on last week's post-crash highs would be healthier in the long run.

Rorer Group was among featured stocks yesterday, jumping $6 on rumours that Hoffmann-La Roche was considering a possible $60 a share offer. It slipped back after Rorer said it knew nothing about a La Roche bid but still stood $3½ higher at midsession at $45¼.

Williams Companies bounced $1⅛ to $37¼ on rumours that it might be planning a leveraged buy-out or the sale of its telecommunications subsidiary.

Church's Fried Chicken, in contrast, received a bid – $8 a share from A Copeland Enterprises, owner of Popeyes Famous Fried Chicken & Biscuits – and rose $⅞ to $7⅞.

Delchamps, which operates supermarkets on the Gulf Coast, dipped $1⅛ to $24⅛ after it rejected a $32 a share merger proposal from Great Atlantic & Pacific Tea.

Cray Research plunged $8⅝ to $60⅞ after announcing sharply lower third quarter profits with net income down at 73 cents a share compared with $1.14. The company said revenue and earnings for the full year would be below analysts' estimates and indicated that there were technical problems with its next generation of supercomputers.

Goodyear Tire & Rubber jumped $1⅞ to $52⅞ in spite of news of sharply lower net income in the third quarter of $1.11 a share compared with $2.98 a year earlier. Yesterday's rally simply reversed some of the stock's recent weakness.

Canada

CORPORATE results enlivened trading in Toronto although the composite index was little changed at midday, standing just 0.3 higher at 3,411.9.

Shell Canada, reporting improved nine months earnings, added C$⅛ to C$42. Noranda Forest, also with higher figures, was steady at C$14¼.

Luxembourg tailors itself to the foreigner

Tim Dickson delves into one of Europe's most unusual and cosmopolitan markets

Mr Paul Scholtes, the articulate young PR man at the Luxembourg Bourse, is only half joking. "The only thing we have in common with other stock exchanges is the fact that we are called a stock exchange," he quips.

Tucked away in an anonymous office building in the centre of the town, the exchange has none of the grandeur or self-confident atmosphere of similarly named institutions in other European financial centres.

While boasting an exceptionally large number of listed securities – 7,400 at the last count including warrants – turnover on the trading floor is a meagre LuxFr100m-250m ($2.7m-6.7m) on a typical day.

And though it organises dealings in the shares of a handful of local companies, the Luxembourg Stock Exchange does not even pretend that its main function is to supply risk capital to the Grand Duchy's industrial concerns.

Far from being tailored to domestic equities business, Luxembourg is one of the world's most important centres for listing and trading in international bonds, notably Eurobonds. After opening its doors inauspiciously for the first time on May 6, 1929 – its initial plans for expansion had to be abandoned after the subsequent crash – the bourse grew steadily in the 1950s and 1970s with the birth and development of the Euromarket.

The exchange does not even pretend that its main function is to supply risk capital to the Grand Duchy's industrial concerns

The cosmopolitan flavour of the market today is illustrated by the fact that at the end of June more than 2,300 issuers from about 60 different countries constituted the official list. Of the 5,395 bonds listed, 5,299 were international with the rest of Luxembourg origin.

Foreign shares outnumber local stocks by more than three to one. The steel group Arbed by far the biggest "local" constituent in a group which includes the three Luxembourg banks, the electricity producers SEO and Cegedel, MMRA (another steel producer in which Arbed has a large stake) and Audiofina, the holding company which is the leading shareholder in CLT (in turn owner of Radio Luxembourg).

Foreign companies are mostly French, Belgian and West German, with many attracted by the growing pool of private, internationally-oriented investment money.

The third and most rapidly expanding category is the investment funds, whose numbers have mushroomed from 178 in 1985 to 617 in June this year as Luxembourg's fiscal and regulatory attractions have become more widely appreciated. A market actually exists in the certificates of some of the funds – provided trades can be matched – and is inspired by the possibility of avoiding initial management company charges and by the infrequent unit pricing policy of some groups which means a more favourable price can often be had on the market.

Finally, with no VAT payable on gold purchases in Luxembourg, this area of the exchange's activities has grown steadily since being introduced in 1981.

Many foreign companies are attracted by the growing pool of internationally-oriented investment money

Trading volumes on the bourse are generally low for the simple reason that bonds do not have the speculative qualities of equities. Most international investors, moreover, use the international telephone (over-the-counter) market whose size defies all guesstimates. The result is that use of the exchange is confined to private individuals, who can buy or sell bonds in denominations of $1,000-plus, a few institutions, and trades in so called "bundles" of odd bond lots.

The 58 credit institutions and 17 broking firms which are members of the exchange make markets for Luxembourg franc and Ecu-denominated bonds, where Luxembourg is the unchallenged leader, but liquidity in other areas is a problem. "The market is not very efficient in the sense that you have to match buyers and sellers, but on price I think it is efficient," says Mr Scholtes. "After all, there is no law restricting business to the trading floor so nobody has to buy on the exchange."

Trading is done by the open outcry system on three posts – hardly a noisy procedure by international standards – and transactions are in cash only.

Fees are relatively low – 0.[illegible] per cent for bonds, and 0.5 per cent for equities, plus a complex sliding scale for bigger deals. There are no transaction taxes and delivery – at six days for bonds and five for equities – benefits from the service of the Luxembourg based international clearing house Cedel.

EUROPE

Dollar concern leaves German trading thin

THERE was no common thread to European trading yesterday as some bourses recovered ground and others saw further profit-taking, *writes Our Markets Staff.*

FRANKFURT rallied modestly but volume remained very low at DM2.4bn. "The market's a little uncertain at the moment about the dollar," said one analyst. "We've been moving close to new highs again and there's a little bit of nervousness around."

The FAZ index edged up 0.81 to 530.94, while the DAX reflected later firmness with a 12.50 rise to 1,293.72.

Daimler made a strong comeback from Monday's losses as investors welcomed the company's plans to restructure. "It will be looked at as the first step in the management's exploitation of the synergies between the disparate areas of the company," said one observer. Daimler rose DM12 to DM745, while BMW, forecasting an 18 per cent increase in sales this year, added DM4 to DM529.50.

Siemens was up DM7.30 at DM484.50, benefiting from confirmation of its share in a DM1bn Soviet contract for a nuclear reactor.

MADRID succumbed to profit-taking after a strong climb on Monday although continued demand for banks and construction stocks underpinned the market.

The general index eased just 0.37 to 291.49, with volumes estimated to be lower than the $130m seen the previous day. Turnover has finally started to pick up from the sad levels seen over the summer, when $65m-$70m was standard.

The two remaining independent banks, Hispano and Popular, saw profit-taking after rising on bid speculation. Private investment group March has been rumoured to be picking up stock in the two, in which it already has 5 per cent stakes, and there is also talk of overseas mergers or bids. Hispano lost 19 points to 849 of par and Popular was steady at 1,896. Santander, reporting strong results over the weekend, found 7 to 959.

AMSTERDAM picked up from initial losses in healthy turnover, with the CBS all-share index adding 0.7 to 100.2.

Among the internationals, Philips gained 70 cents to Fl 30.90 before its third quarter results due tomorrow. Unilever closed Fl 2.50 better at Fl 120.20 on US and local buying and some unwinding of earlier switches into Unilever plc, one trader said.

Akzo, subject of a broker's recommendation, gained Fl 2.10 to Fl 154.50, and Royal Dutch edged up 20 cents to Fl 227.20 as the firmer dollar marginally outweighed the weak oil price.

MILAN sank back in broad profit-taking, with the Comit index shedding 8.4 points, or 1.4 per cent, to 582.44. Turnover was estimated by one broker at roughly the same level as Monday's provisional L195bn.

Against the trend, telephone stock Sip added L138 to L3,340 amid rumoured Japanese buying. The local press has also focused on Sip's discount to net asset value, which is larger than that of telecommunications leader Stet.

BRUSSELS saw a thin start to the new fortnightly account enlivened by speculative activity in a few stocks. The cash market index was off 1.45 at 5,337.32.

Tractebel gained BFr130 to BFr8,410 on forward market turnover of 7,375 shares, while Electrafina added BFr190 to BFr9,310 on abnormally high volume of 6,650 shares. The activity sparked talk of a further tussle between Société Générale de Belgique and GBL, the principal shareholders in the two companies. Electrafina itself holds 13 per cent of Tractebel, so a stronger position for one of the two big shareholders in Electrafina could shift the balance of power in Tractebel.

PARIS continued to stick to the theme of hard core shareholdings and special situations, closing higher in relatively low turnover.

The CAC 50 index added 2.6 to 405.27 and the CAC General index opened the session at 388.5, compared with Friday's 389.1. It was unavailable on Monday.

Perrier saw a heavy 85,000 shares dealt, adding FFr25 to FFr1,376, and Club Med put on FFr27 to FFr518, with 59,000 shares changing hands. Both are linked to takeover/merger speculation.

STOCKHOLM saw trading buoyed by Fermenta, the antibiotics and chemicals group, and independent Trana, the biggest listed finance company, amid rumours that Fermenta would make a bid worth SKr1.4bn for the finance group, *writes Sara Webb in Stockholm.*

Fermenta has recovered from financial scandals which struck two years ago and is now hungry for acquisitions.

The bourse closed firmer after an active session with the Affärsvärlden index up [illegible] to 944.3. Skandia B shares lost SKr5 to SKr393 after worse-than-expected results.

ZURICH reacted to the overnight drop on Wall Street by falling in light volume. The Credit Suisse index eased 2.1 to 495.

● The Zurich Stock Exchange is to increase from 14 to 18 the foreign stocks traded continuously on the bourse, from the start of next year, *adds John Wicks in Zurich.*

BP and Norsk Hydro will be removed from the existing list and Amsterdam-Rotterdam Bank and the German shares Dresdner Bank and Mannesmann will be added.

SOUTH AFRICA

GOLD SHARES closed mixed in Johannesburg yesterday as the bullion price firmed to just below $407.

Among heavyweight mining shares Vaal Reefs gained R1.50 to R263 but Randfontein and Kinross both fell R1 to R255 and R31.50 respectively.

In diamonds De Beers slid 25 cents to R46.60. Platinums were mixed.

ASIA PACIFIC

Demand for steels helps boost volume and Nikkei

Tokyo

VOLUME improved significantly yesterday and share prices turned up in a market that has been see-sawing within a narrow range for several sessions, *writes Michiyo Nakamoto in Tokyo.*

Turnover was noticeably higher at 1.2bn shares compared with 534m on Monday. The Nikkei average rose 139.95 to 27,421.49 after fluctuating from a high of 27,422.36 to a low of 27,267.29.

In London, the ISE/Nikkei 50 index gained 6.11 to 1,734.07.

Mr Hiroshi Taguchi of Nomura Securities said cash was expected to return to equities sooner or later because of the decline in short-term interest rates and external factors, such as the stable exchange rate and low oil prices, favourable to the equity market.

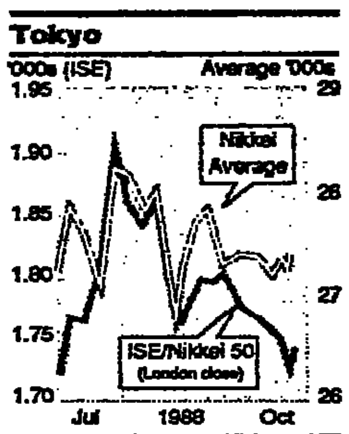
But there were less optimistic views of yesterday's performance. Mr Nicolas Salatti, of UBS Phillips & Drew, said volume was highly concentrated in the most active issues and was not convincing. About 57 per cent of turnover was in the top 10 issues.

Activity focused on shares with high liquidity, particularly large capital steels and shipbuildings. Kawasaki Steel, again the volume leader with 146.2m shares, rose Y32 to a record high of Y880. Nippon Steel, second in volume at 101.4m shares, added Y25 to Y812.

Among shipbuilding companies, Kawasaki Heavy advanced Y41 to Y793. Hitachi Zosen, also active, rose Y15 to Y533.

Interest returned to sectors that have recently been market leaders, such as the railways, shipping companies and utilities. Railways have attracted interest on the strength of their property assets and on the leisure theme. Keisei Electric Railway rose Y50 to Y2,920.

Shipping companies have been bought on expected business growth and on restructuring efforts, which have led many of them into the leisure business. Mitsui OSK Lines rose Y37 to Y665.



Car stocks featured as interest in the sector was renewed by the upcoming listing of Mitsubishi Motor Company.

Nippon Telegraph and Telephone fell Y30,000 to close at Y1.58m, below the price at which the Government released the third tranche of NTT shares last week. NTT's weakness was attributed to both the slack performance of the electricals, caused by the high yen, and to the recent poor performance of the issue.

Trading picked up in Osaka and the OSE average turned up modestly in markedly higher turnover. The index added 55.81 to 25,353.75.

Roundup

THE EASIER tone on Wall Street undermined trading in Asia Pacific markets, although Hong Kong found interest in corporate developments. Taiwan was closed for a holiday.

HONG KONG was lifted by speculation about a takeover battle for Hongkong Shanghai Hotels. The Hang Seng index rose 22.07 to 2,584.53 in fairly thin trading of HK$634m.

Suggestions that the hotels group would make an offer of HK$5.80 a share for its own stock to beat a takeover bid from Cathay City spurred buyers of the market. Hongkong Shanghai Hotels saw hefty turnover of 136m shares, climbing 20 cents to HK$5.60 before being suspended.

Cathay City, which is offering HK$4.80 cash plus one new Cathay City share valued at HK$1.50, rose 9 cents to HK$1.61.

AUSTRALIA finished weaker, but off the day's lows, affected by falling gold prices and a higher-than-expected inflation figure for the fiscal first quarter. The All Ordinaries index shed 6.8 to 1,580.6.

Turnover reached 92m shares worth A$175m, as falls led rises by about two to one. Augold, one of the most active stocks, rose 5 cents to A$1.25 with A$20.8m in shares traded.

SINGAPORE was hit by profit-taking amid some concern about the overnight fall in New York. The Straits Times Industrial index lost 7.78 to 1,036.69, having risen by about 50 points over the previous six sessions.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 24 1988					FRIDAY OCTOBER 21 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (91)	148.13	−0.9	125.31	120.49	4.16	149.46	125.73	121.53	152.31	91.16	105.50
Austria (17)	95.61	+0.3	80.88	88.65	2.42	95.32	80.18	88.44	98.18	83.72	96.16
Belgium (63)	128.60	+0.1	108.79	119.88	4.22	128.46	108.06	119.75	139.89	99.14	108.43
Canada (125)	125.65	+0.0	106.30	109.05	3.10	125.61	105.66	109.28	128.91	107.06	98.39
Denmark (39)	144.68	+0.8	122.40	135.78	2.22	143.57	120.77	134.49	144.68	111.42	110.10
Finland (26)	124.75	+0.7	105.54	110.98	1.50	123.90	104.22	110.30	139.53	106.78	–
France (130)	105.93	+0.2	89.61	101.44	3.20	105.75	88.96	100.94	105.93	72.77	84.57
West Germany (102)	85.14	−1.0	72.03	79.07	2.35	85.96	72.31	79.57	85.96	67.78	82.53
Hong Kong (46)	105.01	−0.6	88.84	105.30	4.80	105.69	88.90	106.00	111.86	84.90	89.59
Ireland (18)	142.02	−0.2	120.15	133.99	3.76	142.33	119.73	134.38	144.25	104.60	124.94
Italy (100)	84.15	−0.2	71.19	83.65	2.41	84.35	70.96	83.66	84.35	62.99	81.33
Japan (456)	167.85	−1.1	142.00	134.48	0.55	169.75	142.79	135.57	177.27	133.61	126.76
Malaysia (36)	140.45	+0.7	118.82	144.45	2.95	139.44	117.29	143.49	154.17	107.83	117.20
Mexico (13)	156.31	−0.1	132.24	390.86	1.39	156.48	131.63	391.28	180.07	90.07	284.61
Netherland (38)	108.80	−0.5	92.04	100.04	4.92	109.31	91.95	100.28	110.66	95.23	95.65
New Zealand (26)	73.16	−0.5	61.89	62.73	6.26	73.52	61.85	62.73	84.05	64.42	104.31
Norway (25)	117.41	−1.4	99.33	106.06	2.73	119.03	100.13	107.07	132.23	98.55	131.48
Singapore (26)	122.20	+0.4	103.37	113.02	2.41	121.67	102.35	112.59	135.89	97.99	101.26
South Africa (60)	109.02	−2.3	92.23	96.29	4.52	111.56	93.84	97.55	139.07	98.26	140.15
Spain (42)	150.78	+0.8	127.55	134.61	3.01	149.56	125.81	133.42	164.47	130.73	138.30
Sweden (35)	129.34	−0.1	109.42	118.67	2.41	129.49	108.93	118.61	129.49	96.92	109.53
Switzerland (56)	83.36	−0.6	70.52	78.27	2.16	83.83	70.52	78.35	86.75	74.13	80.96
United Kingdom (321)	135.67	−1.1	114.77	114.77	4.58	137.21	115.42	115.42	141.18	120.66	116.68
USA (581)	115.19	−0.3	97.45	115.19	3.47	115.55	97.20	115.55	115.55	99.19	92.91
Europe (1012)	112.74	−0.7	95.37	100.90	3.68	113.48	95.46	101.16	113.48	97.01	99.80
Pacific Basin (681)	164.53	−1.1	139.18	132.64	0.77	166.34	139.92	133.70	172.26	130.81	124.69
Euro-Pacific (1693)	143.84	−1.0	121.69	119.85	1.69	145.23	122.16	120.60	147.53	120.36	114.77
North America (706)	115.74	−0.3	97.91	114.83	3.45	116.07	97.64	115.18	116.07	99.78	93.20
Europe Ex. UK (691)	98.32	−0.3	83.18	92.44	2.94	98.59	82.94	92.45	98.59	80.27	89.33
Pacific Ex. Japan (225)	124.44	−0.7	105.27	109.57	4.33	125.29	105.39	110.27	128.27	87.51	99.64
World Ex. US (1891)	142.88	−0.9	120.87	119.38	1.76	144.22	121.32	120.11	146.49	120.26	114.57
World Ex. UK (2151)	131.79	−0.7	111.49	118.20	2.09	132.70	111.63	118.81	132.70	111.77	105.16
World Ex. So. Af. (2412)	132.26	−0.7	111.89	118.02	2.30	133.22	112.06	118.62	133.22	113.26	105.95
World Ex. Japan (2016)	115.02	−0.5	97.30	109.73	3.58	115.54	97.19	110.08	115.54	100.00	96.32
The World Index (2472)	132.12	−0.7	111.77	117.87	2.32	133.09	111.95	118.48	133.09	113.37	106.17

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

New Zealand market closed Oct.24
Latest prices were unavailable for this edition.